

# **Progress Energy Trust Generates Record Quarterly Cash Flow**

*Uses the drill bit to earn lands in the Deep Basin*

CALGARY, Alberta (July 26, 2005) - (TSX-PGX.UN) -- Progress Energy Trust ("Progress" or "Trust") generated record quarterly cash flow from operations of \$44.5 million or \$0.53 per unit, diluted for the second quarter of 2005. Cash distributions declared totaled \$28.9 million or \$0.42 per trust unit resulting in a payout ratio of 65 percent excluding exchangeable shares which do not receive cash distributions. Production averaged 17,578 barrels of oil equivalent per day, 75 percent natural gas.

"Our production base has remained very steady while gas prices have continued to gain strength," said Michael Culbert, President of Progress. "Our cash flows have risen in each quarter of operation and with the outlook remaining very strong we expect our payout ratio to remain at the lower end of our target range of 60 to 70 percent."

The Trust's average gas price realization in the quarter was \$8.13 per thousand cubic feet (mcf), representing a premium of approximately \$0.76 per mcf to the average daily AECO price of \$7.36 per mcf. The premium reflects the high heat content of the Trust's gas production.

Operating expenses averaged \$5.72 per barrel of oil equivalent contributing to a strong operating netback of \$31.16 per barrel of oil equivalent for the quarter.

Capital investment in the second quarter was \$13.6 million. With total debt-to-cash flow of 1.1 times based on the first six months of 2005 annualized cash flow, the Trust remains in a very strong financial position.

## **Progress farms-in on lands in the Deep Basin area**

During the second quarter, Progress continued to strengthen its land position in the Deep Basin area through a farm-in arrangement with a large U.S. producer. The Trust will earn 22 sections of land contiguous with its existing land base which encompasses nearly 160,000 net undeveloped acres in this multi-zone, gas prone region. In total, Progress holds nearly 600,000 net acres of undeveloped land.

## **Drilling success continues in the second quarter**

During the second quarter, Progress drilled 8 gross wells (4.5 net) with a 78 percent success rate which included three gross wells (2.2 net) in the Deep Basin of northwest Alberta, three wells (1.2 net) in northeast British Columbia and two wells (1.1 net) in south central Alberta. The Trust currently has four drilling and four service rigs operating on its lands.

## **Production at full capacity after McMahan turnaround**

Daily production for the second quarter averaged approximately 17,578 barrels of oil equivalent (BOE) including 79.2 million cubic feet per day of natural gas and 4,372 barrels of light and medium oil and natural gas liquids. This production rate includes the impact of the previously planned and announced McMahan gas processing facility turnaround. The McMahan facility has returned to full capacity and Progress' current production rate is approximately 18,300 BOE per day with approximately 500 BOE per day awaiting tie-in.

## **Gas hedging program completed for winter 2005/2006**

Progress recently completed its winter 2005/2006 hedging program through a series of costless collars on approximately 10,000 gigajoules (GJ) per day at an average floor price of Cdn\$8.33 per GJ and an average ceiling of Cdn\$9.80 per GJ at AECO. In total, the Trust has hedged 40,000 GJ per day, or close to one-half of its before royalty gas production, for next winter at an average floor of Cdn\$7.87 per GJ and an average ceiling of Cdn\$9.70 per GJ at AECO. The Trust uses a consistent hedging program as a means to protect its cash flows and provide greater certainty of distributions.

Progress is a Calgary based, natural gas focused trust targeting sustainable production and reserves per unit through the utilization of its technical capability and capital investment efficiencies. Primary operating areas include the Deep Basin of northwest Alberta and the Foothills and Plains regions of northeast British Columbia.

Units of Progress trade on the Toronto Stock Exchange (TSX) under the symbol PGX.UN. Exchangeable Shares of Progress Energy Ltd. trade on the TSX under the symbol PGE and its convertible debentures trade on the TSX under the symbol PGX.DB.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results is dated July 25, 2005, and is to be read in conjunction with the accompanying unaudited consolidated interim financial statements and related notes for the period ended June 30, 2005 and the audited consolidated financial statements and related notes and management discussion and analysis ("MD&A") of Progress Energy Trust for the year ended December 31, 2004. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Management uses cash flow from operations (before changes in non-cash working capital) ("cash flow") to analyze operating performance and leverage. The term distributable cash is also used to present the amount of cash that the Trust distributes to unitholders. Neither distributable cash nor cash flow presented have any standardized meaning prescribed by GAAP and therefore they may not be comparable with the calculation of similar measures for other entities. Distributable cash and cash flow as presented are not intended to represent operating profit for the period nor should they be viewed as an alternative to operating profit, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. The reconciliation between net earnings and cash flow can be found in the consolidated statements of cash flows in the unaudited interim financial statements. The Trust considers cash flow to be a key measure as it demonstrates the Trust's ability to generate the cash necessary to pay distributions, repay debt and to fund future capital investments. Both distributable cash and cash flow are used by research analysts to value and compare oil and gas trusts and are frequently included in published research when providing investment recommendations. Cash flow per unit is calculated using the diluted weighted average number of units for the period. All references to cash flow throughout the MD&A are based on cash flow before changes in non-cash working capital.

### Forward-Looking Information

Certain information regarding Progress Energy Trust ("Progress" or the "Trust") set forth in this document, including management's assessment of the Trust's future plans and operations contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Trust's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Progress's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Trust will derive there from.

### Plan of Arrangement – Transformation to a Trust

On July 2, 2004 Progress Energy Ltd. and Cequel Energy Inc. (“Cequel”) amalgamated to create Progress Energy Trust and two publicly listed, exploration-focused companies, ProEx Energy Ltd. (“ProEx”) and Cyries Energy Inc. (“Cyries”), pursuant to a Plan of Arrangement (“Arrangement”). The Arrangement resulted in Progress Energy Ltd. shareholders receiving one trust unit or exchangeable share of the Trust and 0.2 of a share in each of ProEx and Cyries. Cequel shareholders received 0.695 trust units or exchangeable shares of the Trust and 0.139 of a share in each of ProEx and Cyries. Upon completion of the Arrangement, 65.4 million trust units and 16.0 million exchangeable shares were outstanding.

The Arrangement resulted in the Trust owning approximately 90 percent of the combined producing assets of Progress Energy Ltd. and Cequel. The remainder of the properties of Progress Energy Ltd. and Cequel were transferred to ProEx and Cyries, respectively, consisting of certain prospective natural gas weighted assets and undeveloped land. As a result of the Arrangement the Trust and ProEx have joint interest in certain properties and undeveloped land. These joint interest properties are governed by standard industry agreements and in addition the Trust has entered into a protocol arrangement (“Protocol Arrangement”) and a technical services agreement (“Technical Services Agreement”) with ProEx that specifies how each company will govern the management of the joint lands in specifically identified areas of interest and allocate shared expenses. To ensure good governance practices, both the Trust and ProEx have each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

**Protocol Arrangement** In conjunction with the Arrangement, ProEx assumed the interests in certain of Progress’ producing assets and undeveloped land. The Protocol Arrangement identifies methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. The Protocol Arrangement also outlines the practices to be followed in the event either party enters into areas outside of the identified areas of interest.

**Technical Services Agreement** In conjunction with the Arrangement, the Trust entered into a Technical Services Agreement with ProEx where the Trust provides personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of ProEx. The Technical Services Agreement has no set termination date and will continue until terminated by either party with one year prior written notice to the other party or some other date as mutually agreed. The Trust provides these services to ProEx on an expense reimbursement basis, based on ProEx’s monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx.

The conversion of Progress Energy Ltd. to a Trust has been accounted for as a continuity of interest. Accordingly, the consolidated financial statements for 2005 and 2004 reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly carried on by Progress Energy Ltd. The six months ended June 30, 2004 reflect the results of operations and cash flows of Progress Energy Ltd. and its subsidiaries prior to the Arrangement. Due to the conversion into an energy trust, certain information included in the MD&A for prior periods may not be directly comparable.

The term “units” has been used to identify both the trust units and exchangeable shares of the Trust issued on or after July 2, 2004, as well as the common shares of Progress Energy Ltd. outstanding prior to the conversion on July 2, 2004.

## Description of Business

Progress is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta. The Trust’s unitholders and shareholders are the sole beneficiaries of the Trust. The trust structure allows individual unitholders to participate in the cash flow of the business. Cash flow is realized from the Trust’s ownership of natural gas and petroleum properties and related facilities.

Progress is a Calgary based, natural gas focused, trust targeting sustainable production and reserves per trust unit through utilization of its technical capability and capital investment efficiencies. Primary operating areas include the deep basin of northwest Alberta and the foothills and plains regions of northeast British Columbia. Trust units of Progress trade on the Toronto Stock Exchange (“TSX”) under the symbol PGX.UN. Exchangeable shares

and 6.75 percent convertible unsecured subordinated debentures of Progress trade on the TSX under the symbols PGE and PGX.DB respectively.

## OPERATING SUMMARY

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

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

### Production

	Three Months Ended June 30		Six Months Ended June 30		Change
	2005	2004	2005	2004	
<b>Average Daily Production</b>					
Natural gas ( <i>mcf/d</i> )	79,236	44,809	81,865	39,807	106%
Crude oil ( <i>bbls/d</i> )	3,067	2,160	2,810	2,193	28%
Natural gas liquids ( <i>bbls/d</i> )	1,305	325	1,451	327	344%
<b>Total daily production (<i>boe/d</i>)</b>	<b>17,578</b>	<b>9,953</b>	<b>17,905</b>	<b>9,155</b>	<b>96%</b>

For the three months ended June 30, 2005 (the "Quarter"), Progress production averaged 17,578 boe per day consisting of 79,236 mcf per day of natural gas, 3,067 barrels ("bbls") per day of crude oil and 1,305 bbls per day of natural gas liquids. This compares favorably to 9,953 boe per day for the same period in 2004 primarily due to the acquisition of Cequel and successful drilling, partially offset by the transfer of assets to ProEx (refer to Plan of Arrangement – Transformation to a Trust). The Trust's production portfolio for the Quarter was weighted 75 percent to natural gas, 18 percent to crude oil and seven percent to natural gas liquids.

Production for the Quarter was reduced by the planned and previously announced Duke-owned McMahon gas processing facility shutdown in northeast British Columbia. Approximately 35 percent of the Trust's gas is processed through this facility. The facility turnaround was conducted in three stages. Initially the facility curtailed firm service by 32 percent from June 16 to June 19, 2005. The facility was completely shutdown from June 20 to July 8, 2005 and firm service was curtailed 14 percent from July 9 to July 15, 2005. The shutdown will also impact Progress' third quarter volumes. The McMahon facility has returned to full capacity and Progress' current production rate is approximately 18,300 boe per day with approximately 500 boe per day awaiting tie-in.

Natural gas production increased 77 percent to 79,236 mcf per day during the Quarter compared to 44,809 mcf per day for the same period in 2004. The increase in natural gas production is mainly due to the acquisition of Cequel and successful drilling in the deep basin of northwest Alberta and the foothills and Fort St. John plains areas of British Columbia during 2004 and the first quarter of 2005, partially offset by the transfer of assets to ProEx. Crude oil and natural gas liquids production for the Quarter increased 76 percent to 4,372 bbls per day from 2,485 bbls per day for the same period in 2004. The increase in crude oil and natural gas liquids production is mainly due to the acquisition of Cequel, partially offset by the transfer of assets to ProEx.

Year-to-date 2005 production was 17,905 boe per day consisting of 81,865 mcf per day of natural gas, 2,810 bbls per day of crude oil and 1,451 bbls per day of natural gas liquids. This compares favorably to 9,155 boe per day for the same period in 2004 due to the Cequel acquisition. The Trust's production portfolio for the six months ended June 30, 2005 was weighted 76 percent to natural gas, 16 percent to crude oil and eight percent to natural gas liquids.

### Pricing and Risk Management

Natural gas pricing was influenced by several factors throughout the Quarter. The gas storage volume began the Quarter above the historical seven year midpoint with 1,239 Bcf in storage compared to the seven year historical high and low of 1,535 Bcf and 664 Bcf respectively. During the Quarter, large week on week injections increased the total stored volume to 2,123 Bcf which when compared to opening volume, positioned storage at the end of the Quarter close to the 7 year historical high of 2,247 Bcf. Moderate weather also played a roll in the storage situation as temperatures throughout most of North America required a limited volume to meet the heating and cooling load. The resulting downward pressure on gas prices was more than offset by strong crude oil prices late in the Quarter as fuel switching to natural gas created additional demand that otherwise would not have existed. Nearby and strip natural gas prices increased in June as market competition grew along with oil prices that continued to reach record levels. However, this cushion still represents 1.3 Bcf per day more stored natural gas than this time last year. Higher temperatures in June created more heating degree days in the East and producing regions which resulted in 1.0 Bcf per day of higher gas demand due to electrical generation for cooling. If temperatures through July and August are equal to the historical average, the growth in electrical demand should be sustainable. However, in order to eliminate the remaining gas storage cushion, either new demand or less production would be required. Without the effect of either, storage will reach capacity prior to November 1st, which based on current pricing, seems to be the market's view. Currently in most markets, natural gas prices are competitive with fuel oil which is helping to provide gas demand as industrial and power customer's fuel switch from crude oil to natural gas.

For the second straight quarter, crude oil prices closed with record highs in June as West Texas Intermediate ("WTI") averaged \$56.42US/bbl and Edmonton mixed sweet averaged \$69.46 Cdn/bbl. Global demand for gasoline and market uncertainty whether the crude and refined product inventory will meet demand was the primary driver of these record setting prices. This market uncertainty is evident when comparing current future WTI strip months as the market's anticipation of undersupply is causing prices to increase the further into 2006 you look.

### Commodity Prices

For the Quarter, Progress realized the following commodity prices compared to the same periods in 2004:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<b>Average Benchmark Prices</b>				
AECO (daily) natural gas (\$/mcf)	7.36	6.99	7.13	6.70
WTI crude oil (US\$/bbl)	53.17	38.32	51.51	36.73
Edmonton par price (Cdn\$/bbl)	65.79	50.63	63.64	48.13
Exchange rate (US\$/Cdn\$)	0.8039	0.7356	0.8094	0.7470
<b>Average Realized Prices</b>				
Natural gas - before hedging (\$/mcf)	8.12	7.17	7.70	6.95

Hedge settlements (\$/mcf)	-	(0.07)	0.20	(0.04)
Amortization of hedge premiums (\$/mcf)	(0.01)	(0.03)	(0.02)	(0.06)
Amortization of commodity sales contract (\$/mcf) <sup>1</sup>	0.02	0.05	0.02	0.05
Change in fair value of financial instruments (\$/mcf)	-	0.04	-	0.03
Natural gas - after hedging (\$/mcf)	8.13	7.16	7.90	6.93
Crude oil - before hedging (\$/bbl)	64.20	48.75	62.05	46.39
Hedge settlements (\$/bbl)	-	(5.94)	-	(3.44)
Amortization of hedge premiums (\$/bbl)	-	(0.34)	-	(0.17)
Crude oil - after hedging (\$/bbl)	64.20	42.47	62.05	42.78
Natural gas liquids (\$/bbl)	56.41	43.40	51.70	39.84

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

### Risk Management

The Trust has entered into several natural gas financial and physical contracts for the purpose of protecting its cash flow from the volatility of natural gas prices. For the Quarter, the Trust's natural gas price risk management program had a net gain of \$0.1 million (2004 - \$1.3 million net loss, consisting of hedging charges of \$1.2 million for crude oil and \$0.1 million for natural gas), which is included in petroleum and natural gas revenue on the statements of earnings. For the six months ended June 30, 2005, the Trust's natural gas price risk management program had a net gain of \$2.9 million (2004 - \$1.6 million net loss, consisting of hedging charges of \$1.4 million for crude oil and \$0.2 million for natural gas).

The Trust's hedging activities are conducted pursuant to the Trust's Risk Management Policy approved by the Board of Directors. The Risk Management Policy has the following objectives:

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

Progress' commodity risk management positions are fully described in Note 13 in the unaudited consolidated financial statements attached. The Trust currently has natural gas financial and physical contracts in place for the following production volumes:

	Contract Natural Gas Volumes ('000 GJ/d)	% of Estimated Production Before Royalties
Second quarter of 2005	40.0	40
Third quarter of 2005	40.0	40
Fourth quarter of 2005	40.0	40
First quarter of 2006	40.0	40

### Revenue

For the Quarter, petroleum and natural gas revenue increased 114 percent to \$83.2 million from \$38.8 million for the same period in 2004 due to higher production volumes as a result of the Cequel acquisition and successful drilling in the deep basin of northwest Alberta and the foothills and Fort St. John plains areas of British Columbia during 2004 and the first quarter of 2005, as well as increased commodity prices, partially offset by the transfer of properties to ProEx. Production revenue before hedging for the Quarter consisted of \$58.5 million from natural gas sales, \$17.9 million from crude oil sales and \$6.7 million from the sale of natural gas liquids.

For the six months ended June 30, 2005, revenues increased 133 percent to \$162.2 million from \$69.6 million for the same period in 2004 primarily due to higher production volumes as a result of the Cequel acquisition, partially offset by the transfer of assets to ProEx, as well as higher commodity prices.

For the Quarter and six months ended June 30, 2005, petroleum and natural gas sales revenue was made up of the following balances compared to the same period in 2004:

(\$ thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Natural gas sales	58,527	29,249	114,168	50,340
Crude oil sales	17,920	9,570	31,559	18,519
Natural gas liquids sales	6,698	1,285	13,577	2,374
Hedge settlements	(4)	(1,283)	2,926	(1,492)
Amortization of hedge premiums	(83)	(204)	(333)	(510)
Amortization of a commodity sales contract <sup>1</sup>	164	194	332	392
<b>Petroleum and natural gas revenue</b>	<b>83,222</b>	<b>38,811</b>	<b>162,229</b>	<b>69,623</b>

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

## Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners net of credits received through the Alberta Royalty Tax Credit program. For the Quarter, royalties increased 111 percent to \$21.1 million from \$10.0 million for the same period in 2004 and for the six months ended June 30, 2005 increased 136 percent to \$40.4 million from \$17.1 million in 2004 due to increased revenue. The Trust's average royalty rate percent (after removing the effects of hedging charges) for the Quarter was 25.3 percent compared to 24.8 percent in 2004. The year-to-date average royalty rate was 25.4 percent compared to 24.0 percent in 2004. The higher royalty rate in 2005 is attributable to the increased gas weighting of the Trust's production, as the Trust's effective royalty rate on natural gas is higher than crude oil.

Management anticipates, based on current commodity prices, the average royalty rates for the remainder of 2005 will be approximately 25 percent.

## Operating Expenses

Operating expenses increased 64 percent to \$9.1 million during the Quarter compared to \$5.6 million during the same period in 2004. For the six months ended June 30, 2005, operating expenses increased 77 percent to \$18.5 million compared to \$10.4 million during the same period in 2004. The increase in operating expenses is mainly attributable to the Cequel acquisition. On a boe basis, operating expenses for the Quarter decreased seven percent to \$5.72 from \$6.15 in the same period in 2004, while year-to-date operating expenses decreased nine percent to \$5.70 from \$6.25 in the same period in 2004. The lower operating expenses per boe is mainly attributable to the purchase of previously leased gas compressors in the fourth quarter of 2004 and the addition of low operating cost properties per boe as a result of the Cequel acquisition.

Management anticipates operating expense for the remainder of 2005 to be approximately \$5.50 per boe.

## Transportation Expenses

Transportation expenses increased 17 percent to \$3.2 million for the Quarter compared to \$2.7 million for the same period in 2004. For the six months ended June 30, 2005, transportation expenses increased 26 percent to \$6.3 million compared to \$5.0 million during the same period in 2004. On a boe basis, transportation expenses during the Quarter decreased 34 percent to \$1.98 compared to \$2.98 for the same period in 2004, while year-to-date transportation expenses decreased 35 percent to \$1.93 compared to \$2.98 for the same period in 2004. The decrease for the Quarter and year-to-date transportation on a boe basis is mainly attributable to a decrease in the proportion of production from British Columbia. As a result of the Cequel acquisition the Trust's production in British Columbia went from representing 76 percent of total production during the three months ended June 30, 2004 to 33 percent for the Quarter. In British Columbia, there is an infrastructure owned by Duke Energy that enables gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

## Operating Netbacks

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas and oil properties for the Quarter compared to the same period in 2004:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<b>Natural Gas Properties (\$/mcf)</b>				
Sales price - before hedging	8.31	7.21	7.86	6.96
Hedging settlements	-	(0.07)	0.18	(0.04)
Amortization of hedge premiums	(0.01)	(0.03)	(0.02)	(0.06)
Change in fair value of financial instruments	-	0.04	-	0.02
Amortization of commodity sales contract	0.02	0.05	0.02	0.05
Royalties	(2.09)	(1.98)	(2.14)	(1.83)
Operating expenses	(0.93)	(0.86)	(0.85)	(0.91)
Transportation expenses	(0.33)	(0.53)	(0.32)	(0.54)
Operating netback – natural gas properties	4.97	3.83	4.73	3.65
<b>Oil Properties (\$/bbl)</b>				
Sales Price - before hedging	60.57	47.80	57.82	45.77
Hedging settlements	-	(5.65)	-	(3.29)
Amortization of hedge premiums	-	(0.32)	-	(0.16)
Royalties	(15.73)	(8.61)	(10.74)	(8.80)
Operating expenses	(6.37)	(9.60)	(8.30)	(8.65)
Transportation expenses	(1.92)	(2.24)	(1.86)	(2.18)
Operating netback – oil properties	36.55	21.38	36.92	22.69

## General and Administrative Expenses

For the Quarter, general and administrative expenses net of overhead recoveries, (“G&A”) increased 321 percent to \$2.6 million (\$1.65 per boe) compared to \$0.6 million (\$0.69 per boe) for the same period in 2004. For the six months ended June 30, 2005, G&A expenses increased 222 percent to \$5.2 million (\$1.59 per boe) from \$1.6

million (\$0.96 per boe) for the same period in 2004. The increase in the Quarter and year-to-date G&A expense is due to the increase in full-time and contract staff required as a result of the increased size of the Trust's operations due to the Cequel acquisition, as well as the unit based compensation expense incurred as discussed below.

For the Quarter, unit based compensation expense relating to the performance unit incentive plan was \$0.7 million (\$0.42 per boe) (2004 – nil) which includes a non-cash charge of \$0.5 million (\$0.32 per boe) (2004 – nil). The Progress performance unit plan provides for employees, directors and contract employees to be granted trust units and accumulated distributions over a three year performance period. Payment may be in the form of cash or trust units, at the Trust's option. Management anticipates, at the end of the performance period, accumulated distributions will be paid in cash and trust units will be paid from treasury. As a result, accumulated distributions are accounted for as a reduction to cash flow and the amortization of the fair value of the trust unit grants are accounted for as a non-cash charge. Progress' performance unit incentive plan is fully described in Note 10 in the unaudited consolidated financial statements attached.

In conjunction with the Arrangement, the Trust entered into a Technical Services Agreement with ProEx where the Trust provides personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of ProEx. The Trust provides these services to ProEx on an expense reimbursement basis, based on ProEx's monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx. Total expenses reimbursed by ProEx for the Quarter were \$0.6 million and \$1.1 million for the six months ended June 30, 2005.

The Trust capitalized approximately \$0.4 million of G&A during the Quarter and \$0.8 million for the six months ended June 30, 2005. The majority of these costs represent geological and geophysical salaries.

Management anticipates G&A expense to average approximately \$1.50 per boe for the remainder of 2005.

### Interest and Financing Expenses

Interest and financing expenses during the Quarter increased 353 percent to \$2.9 million compared to \$0.6 million for the same period in 2004. Interest and financing expenses for the six months ended June 30, 2005 increased 336 percent to \$5.0 million compared to \$1.1 million for the same period in 2004. The increase is primarily due to higher average debt levels due to the Arrangement, as well as interest, accretion and amortization of issue costs on the \$100 million principal amount of 6.75 percent convertible unsecured subordinated debentures ("the Debentures") issued February 2, 2005. For a further discussion of the Debentures see the "Liquidity and Capital Resources" section below. The following summarizes the charges included in interest and financing expenses:

(\$ thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Interest on bank debt	750	637	1,507	1,138
Interest on Debentures	1,706	-	2,760	-
Amortization of Debenture issue costs	207	-	337	-
Accretion on debt portion of Debentures <sup>1</sup>	223	-	362	-
<b>Total interest and financing expense</b>	<b>2,886</b>	<b>637</b>	<b>4,966</b>	<b>1,138</b>

<sup>1</sup> Under generally accepted accounting principles, the fair value of the conversion feature of the Debentures is classified as equity and the remainder is classified as debt. Over the term of the Debentures, the debt portion will accrete up to the principal balance at maturity with the charge going to interest and financing expenses.

### Depletion, Depreciation and Accretion

For the Quarter, depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations ("DD&A") increased 165 percent to \$22.7 million from \$8.6 million for the same period in 2004. For the six months ended June 30, 2005, DD&A increased 197 percent to \$45.8 million from \$15.4 million

for the same period in 2004. The increase is due to both higher production and a higher depletable base as a result of the Cequel acquisition, as well as, new accounting for exchangeable shares whereby the conversion of exchangeable shares result in a charge to property, plant and equipment and is depleted over time. On a boe basis DD&A has increased due to the acquisition of Cequel and the inclusion of the Cequel assets at their fair market value, as well as, the accounting for exchangeable shares. DD&A per boe for the three months ended June 30, 2005 was \$14.19 compared to \$9.47 in 2004 and the six months ended June 30, 2005 was \$14.12 compared to \$9.24 for the same period in 2004.

As a result of the Arrangement and new accounting for exchangeable shares, management expects depletion, depreciation and accretion per boe for the remainder of 2005 to be approximately \$14.50 per boe.

#### Income and Capital Taxes

Capital taxes were \$0.5 million for the Quarter and \$0.2 million during the same period in 2004 and \$1.1 million for the six months ended June 30, 2005 and \$0.4 million for the same period in 2004. The increase is primarily attributable to the Cequel acquisition. The provision for future income taxes for the Quarter decreased to \$0.9 million from \$2.8 million in same period in 2004. The expense for the Quarter is due to \$3.0 million of adjustments relating to tax audits performed during the Quarter. For the six months ended June 30, 2005 the provision for future income taxes decreased to a recovery of \$1.5 million from an expense of \$4.6 million in 2004. The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not distributed or distributable to the unitholders. It is expected the Trust will not incur any cash income taxes in the future and as such the future tax liability recorded on the balance sheet will recover through future net earnings.

#### Non-Controlling Interest - Exchangeable Shares

On March 8, 2005 the accounting abstract "Exchangeable Securities Issued by Subsidiaries of Income Trusts" was amended effective for financial statements issued on or after June 30, 2005. Under the amended abstract, exchangeable shares are presented as equity of the Trust only if the exchangeable shares are entitled to receive distributions of earnings economically equivalent to distributions received by units of the trust and the holders of exchangeable shares can only dispose of them by exchanging them for trust units. The exchangeable shares of the Trust's subsidiary trade on the TSX, thereby allowing holders of the exchangeable shares to dispose of them without having to exchange them for trust units and consequently, they must be classified as non-controlling interest outside of unitholders' equity. The net earnings attributable to the exchangeable shares is charged to the consolidated statement of earnings and accumulated earnings as non-controlling interest with a corresponding increase to non-controlling interest on the consolidated balance sheet.

The following details the non-controlling interest activity for the six months ended June 30, 2005 and 2004:

<i>(\$thousands, except unit amounts)</i>	Six Months Ended June 30			
	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of period	14,533,506	141,060	-	-
Exchanged for trust units	(1,787,326)	(17,588)	-	-
Non-controlling interest expense		7,296		
Balance, end of period	12,746,180	130,768	-	-

The charge to net earnings of \$7.3 million represents the net earnings attributable to the exchangeable shares over the period.



## Net Earnings and Cash Flow

Net earnings increased 277 percent to \$16.8 million for the Quarter compared to \$4.5 million during the same period in 2004. The increase was primarily due to the Cequel acquisition and the reorganization into a trust which reduced Progress' expected future income tax expense. Included in net earnings for 2005 is a charge of \$3.4 million for non-controlling interest relating to new accounting for exchangeable shares (see "Non-Controlling Interest – Exchangeable Shares" above). Basic net earnings for the Quarter were \$0.25 per unit compared to \$0.13 per unit during the same period in 2004. Similarly, diluted net earnings for the Quarter were \$0.24 per unit compared to \$0.12 per unit during the same period in 2004.

Net earnings for the six months ended June 30, 2005 increased 221 percent to \$34.4 million from \$10.7 million during the same period in 2004. The increase was due to the Cequel acquisition and the reorganization into a trust which reduced Progress' expected future income tax expense. Included in net earnings for the six months ended June 30, 2005 is a charge of \$7.3 million for non-controlling interest (see "Non-Controlling Interest – Exchangeable Shares" above). Basic net earnings for the six months ended June 30, 2005 was \$0.50 per unit compared to \$0.32 per unit during the same period in 2004, while diluted net earnings for the six months ended June 30, 2005 was \$0.50 per unit compared to \$0.30 per unit.

Cash flow increased 149 percent to \$44.5 million for the Quarter compared to \$17.8 million during the same period in 2004 due to higher production and commodity prices. Diluted cash flow for the Quarter was \$0.53 per unit compared to \$0.49 per unit during the same period in 2004.

Cash flow increased 165 percent to \$87.0 million for the six months ended June 30, 2005 compared to \$32.8 million during the same period in 2004 due to higher production and commodity prices. Diluted cash flow was \$1.05 per unit compared to \$0.86 per unit.

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

(\$ thousands, except per unit amounts)	Three Months Ended							
	June 30 2005	Mar 31 2005	Dec 31 2004	Sept 30 2004	Jun 30 2004	Mar 31 2004	Dec 31 2003	Sept 30 2003
Petroleum and natural gas revenue	83,222	79,007	76,767	68,299	38,811	30,812	28,370	24,939
Cash flow	44,466	42,511	41,344	36,355	17,833	14,928	13,390	12,317
Per unit diluted	0.53	0.52	0.50	0.45	0.49	0.41	0.39	0.37
Net earnings	16,840	17,527	18,196	15,324	4,464	6,247	4,293	3,647
Per unit basic	0.25	0.27	0.28	0.24	0.13	0.19	0.13	0.12
Per unit diluted	0.24	0.27	0.28	0.24	0.12	0.17	0.12	0.11

<sup>1</sup> The above amounts have been restated for changes in accounting policies related to asset retirement obligations, transportation expenses and non-controlling interest.

<sup>2</sup> Quarterly petroleum and natural gas revenue and cash flow remained relatively constant in 2003 and increased in the first two quarters of 2004 primarily due to increased production due to successful drilling in British Columbia. For the third and fourth quarters of 2004 and the first and second quarters of 2005 petroleum and natural gas revenue and cash flow increased primarily due to the Cequel acquisition and successful drilling in the northeast British Columbia core areas, partially offset by the transfer of assets to ProEx as part of the Arrangement.

## Capital Expenditures

During the Quarter, the Trust invested approximately \$13.6 million in net capital expenditures compared to \$16.6 million in the same period in 2004. For the six months ended June 30, 2005 Progress invested approximately \$47.9 million compared to \$60.3 million in the same period in 2004.

<i>(\$ thousands)</i>	Three Months Ended		Six Months Ended	
	2005	2004	2005	2004
		June 30		June 30
Land acquisitions and retention	1,071	4,200	2,798	8,448
Geological and geophysical	302	1,438	1,525	6,300
Drilling and completions	7,409	6,604	28,236	29,809
Equipping and facilities	4,764	7,875	14,011	18,558
Net property acquisitions (dispositions)	(533)	(3,951)	431	(3,568)
Corporate assets	546	449	938	770
<b>Total net capital expenditures</b>	<b>13,559</b>	<b>16,615</b>	<b>47,939</b>	<b>60,317</b>

During the Quarter, Progress drilled 8 gross wells (4.5 net) with a 78 percent success rate which included three gross wells (2.2 net) in the Deep Basin of northwest Alberta, three wells (1.2 net) in northeast British Columbia and two wells (1.1 net) in south central Alberta.

The Trust expects to drill 75 to 80 gross wells in 2005 with 40 to 45 wells (24 net) focused in the foothills and plains regions of northeast British Columbia and 30 wells (17 net) planned in the Gold Creek area of northwest Alberta on a capital program totaling approximately \$75 million. The Trust's 2005 capital program is expected to be split approximately 65 percent to drilling and completions, 20 percent to facilities with the remaining 15 percent allocated to land and seismic expenditures. The Trust does not set a budget for property acquisitions.

## Liquidity and Capital Resources

<i>(\$ thousands)</i>	June 30, 2005	December 31, 2004
Working capital deficiency	27,297	37,821
Bank debt	67,171	133,722
Convertible debentures	91,240	-
<b>Total debt</b>	<b>185,708</b>	<b>171,543</b>

On February 2, 2005 the Trust issued \$100 million principal amount of 6.75 percent convertible unsecured subordinated debentures for net proceeds of \$95.5 million. The Debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid trust units at a conversion price of \$15.00 per trust unit. The Debentures mature on June 30, 2010 at which time they are due and payable. The net proceeds were used to reduce outstanding bank indebtedness.

The Debentures have been classified as debt net of the fair value of the conversion feature which has been classified as part of unitholders' equity and net of issue costs. This resulted in \$90.5 million being classified as debt and \$4.9 million being classified as equity. Issue costs will be amortized over the term of the Debentures, and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within interest and financing expense on the consolidated statements of earnings.

At June 30, 2005 the Trust had \$67.2 million outstanding on its credit facilities, \$91.2 million for the debt portion of the Debentures and a working capital deficiency of \$27.3 million, totaling \$185.7 million of total debt. The Trust currently has a \$200 million extendible revolving term credit facility and a \$15 million working capital credit facility with a syndicate of banks. The facilities are available on a revolving basis for a period of at least 364 days until May 30, 2006, and such initial term out date may be extended for further 364 day periods at the request of the Trust, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. The credit facilities are secured by a \$500 million fixed and floating charge debenture on the assets of the Trust and by a guarantee and subordination provided by Progress Energy Ltd. in respect of the Trust's obligations. The \$215 million borrowing base is subject to semi-annual review by the banks.

Bank debt decreased from \$133.7 million as at December 31, 2004 to \$67.2 million as at June 30, 2005. This decrease is primarily the result of the issuance of Debentures during the first quarter. The working capital deficiency of \$27.3 million at June 30, 2005 is lower than the December 31, 2004 deficiency of \$37.8 million, primarily due to lower capital spending in the Quarter compared the fourth quarter of 2004.

The Trust's investing activities in the Quarter and six months ended June 30, 2005 primarily consists of expenditures on its capital program and distributions to unitholders. Management anticipates that the Trust will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2005 through a combination of cash flow and debt. Cash flow used to finance these commitments may reduce the amount of cash distributions paid to unitholders.

#### Distributable Cash and Distributions

Management monitors the Trust's distribution payout policy with respect to forecasted net cash flow, debt levels and capital expenditures. Progress expects to distribute approximately 60 to 70 percent of its annual cash flow to unitholders and retain the remaining cash flow for capital expenditures and debt repayment. Exchangeable shares are convertible into trust units of the Trust based on the exchange ratio, which is adjusted monthly to reflect that distributions are not paid on the exchangeable shares and cash flow related to the exchangeable shares is retained by the Trust for additional capital expenditures or debt repayment. The key drivers of Progress' cash flow, as is generally the case with other energy trusts, are commodity prices and production. Since the Trust's production is heavily weighted to natural gas (75 percent in the Quarter), natural gas prices have a significant effect on its cash flow.

Distributable cash is not a measure under GAAP and there is no standard measure of distributable cash. Distributable cash, as presented, may not be comparable to similar measures presented by other trusts. Progress' initial cash distribution declared was \$0.14 per trust unit for the month of July 2004. The Trust has maintained this distribution to date.

	Six Months Ended
	June 30
	2005
<i>(\$ thousands, except per unit amounts)</i>	
Cash flow from operations before changes in non-cash working capital	86,977
Cash withheld to fund capital expenditures	(29,529)
Cash distributions declared	57,448
Accumulated cash distributions, beginning of period	55,705
Accumulated cash distributions, end of period	113,153
Cash distributions per unit <sup>1</sup>	0.84
Accumulated cash distributions per unit, beginning of period	0.84
Accumulated cash distributions per unit, end of period	1.68

<sup>1</sup> Cash distributions per trust unit reflect the sum of the per trust unit amounts paid monthly to unitholders.

## Additional Information

Additional information regarding the Trust and its business and operations, including the annual information form (“AIF”) is available on the Trust’s company profiles at [www.sedar.com](http://www.sedar.com). Copies of the AIF can also be obtained by contacting the Trust at Progress Energy Trust 1400, 440 – 2<sup>nd</sup> Avenue S.W., Calgary, Alberta, Canada T2P 5E9 or by e-mail at [ir@progressenergy.com](mailto:ir@progressenergy.com). This information is also accessible on the Trust’s web site at [www.progressenergy.com](http://www.progressenergy.com).

## OUTLOOK

Our strategy focuses on maintaining or modestly growing production and reserves underlying each unit of the trust while providing a consistent stream of cash distributions. During our first full year of operation we have stayed-the-course, remaining focused on internally generated opportunities rather than participating in the acquisitions market which has seen unprecedented prices paid for assets.

Operationally, we have made significant strides in our first full year. Production has stabilized into a more predictable range of 18,000 to 18,500 boe per day and our capital and operating cost efficiencies remain in the top decile of our sector.

Financially, cash flow generation has been driven by strong commodity prices and further enhanced by the high heat content nature of our natural gas production and low operating costs. Our balance sheet remains strong with debt to cash flow on target at approximately 1 times and we have made cash distributions to unitholders of \$113 million during our first year. In addition, as many of our industry peers have struggled to maintain key personnel, we have been able to retain all, and even add to our technical and financial staff.

As we move forward, we will continue to pace our development activities to offset our production declines and hold production steady on a per unit basis. Our land base which encompasses nearly 600,000 net undeveloped acres provides a substantial exploitation inventory as well as the opportunity to potentially provide modest growth in the near to medium term.

On behalf of the Board of Directors,

(Signed) “Michael R. Culbert”

Michael R. Culbert  
President  
July 25, 2005

(Signed) “David D. Johnson”

David D. Johnson  
Executive Chairman  
July 25, 2005

# PROGRESS ENERGY TRUST

## CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	June 30, 2005	December 31, 2004
<b>ASSETS</b>	<i>(Unaudited)</i>	<i>(Audited)</i> <i>(Restated Note 2)</i>
Current		
Cash and short-term investments	-	-
Accounts receivable	23,749	30,863
Prepaid expenses and deposits	4,709	4,370
	28,458	35,233
Property, plant and equipment <i>(Note 5)</i>	659,153	643,380
Goodwill <i>(Note 3)</i>	414,655	414,655
	1,102,266	1,093,268
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	39,633	56,978
Cash distributions payable	9,635	9,366
Current income taxes payable	6,487	6,709
	55,755	73,053
Bank debt <i>(Note 6)</i>	67,171	133,722
Convertible debentures <i>(Note 7)</i>	91,240	-
Commodity sales contract <i>(Note 13)</i>	1,763	2,094
Asset retirement obligations <i>(Note 8)</i>	17,090	16,065
Future income taxes	115,171	112,483
	348,190	337,417
<b>NON-CONTROLLING INTEREST</b>		
Exchangeable shares <i>(Note 9)</i>	130,768	141,060
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital <i>(Note 10)</i>	647,121	621,490
Convertible debentures <i>(Note 7)</i>	4,944	-
Contributed surplus <i>(Note 10)</i>	1,194	171
Accumulated earnings	83,202	48,835
Accumulated cash distributions	(113,153)	(55,705)
	623,308	614,791
	1,102,266	1,093,268

*See accompanying notes to the consolidated financial statements*

**PROGRESS ENERGY TRUST**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND ACCUMULATED EARNINGS**  
*(Unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands, except per unit amounts)</i>	2005	2004	2005	2004
<b>REVENUE</b>				
Petroleum and natural gas	83,222	38,811	162,229	69,623
Royalties	(21,055)	(9,957)	(40,392)	(17,100)
	62,167	28,854	121,837	52,523
<b>EXPENSES</b>				
Operating	9,146	5,572	18,476	10,412
Transportation	3,163	2,701	6,258	4,972
General and administrative	2,647	629	5,169	1,607
Interest and financing	2,886	637	4,966	1,138
Depletion, depreciation and accretion	22,700	8,580	45,764	15,403
Plan of arrangement <i>(Note 4)</i>	-	3,314	-	3,314
	40,542	21,433	80,633	36,846
Earnings before taxes and non-controlling interest	21,625	7,421	41,204	15,677
<b>TAXES</b>				
Capital taxes	543	183	1,086	364
Future income taxes <i>(Note 11)</i>	886	2,774	(1,545)	4,602
	1,429	2,957	(459)	4,966
Net earnings before non-controlling interest	20,196	4,464	41,663	10,711
Non-controlling interest – exchangeable shares <i>(Note 9)</i>	(3,356)	-	(7,296)	-
<b>NET EARNINGS</b>	16,840	4,464	34,367	10,711
Accumulated earnings, beginning of period	79,174	41,027	57,181	36,290
Retroactive application of change in accounting policy <i>(Note 2)</i>	(12,812)	-	(8,346)	(1,510)
Accumulated earnings, beginning of period, as restated	66,362	41,027	48,835	34,780
Plan of arrangement <i>(Note 4)</i>	-	(12,844)	-	(12,844)
Accumulated earnings, end of period	83,202	32,647	83,202	32,647
<b>NET EARNINGS PER UNIT (\$) <i>(Note 10)</i></b>				
Basic	0.25	0.13	0.50	0.32
Diluted	0.24	0.12	0.50	0.30

*See accompanying notes to the consolidated financial statements*

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

*(Unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands)</i>	2005	2004	2005	2004
<b>Operating Activities</b>				
Net earnings	16,840	4,464	34,367	10,711
Depletion, depreciation and accretion	22,700	8,580	45,764	15,403
Non-controlling interest – exchangeable shares <i>(Note 9)</i>	3,356	-	7,296	-
Convertible debentures accretion <i>(Note 7)</i>	223	-	362	-
Amortization of convertible debenture issue costs <i>(Note 7)</i>	207	-	337	-
Amortization of commodity sales contract	(164)	(194)	(332)	(392)
Unit based compensation expense <i>(Note 10)</i>	511	2,475	1,023	2,718
Asset retirement expenditures <i>(Note 8)</i>	(93)	(102)	(295)	(117)
Change in fair value of financial instruments	-	(164)	-	(164)
Future income taxes	886	2,774	(1,545)	4,602
	44,466	17,833	86,977	32,761
Changes in non-cash working capital <i>(Note 12)</i>	1,125	334	2,842	1,840
	45,591	18,167	89,819	34,601
<b>Financing Activities</b>				
Increase (decrease) in bank debt	11,476	25,291	(66,551)	42,223
Issue of convertible debentures <i>(Note 7)</i>	-	-	100,000	-
Convertible debenture issue costs <i>(Note 7)</i>	34	-	(4,515)	-
Cash distributions	(28,851)	-	(57,179)	-
Issue of units	-	3,452	-	5,407
Plan of arrangement <i>(Note 4)</i>	-	(21,943)	-	(21,943)
Deferred plan of arrangement costs	-	(3,350)	-	(3,350)
Changes in non-cash working capital <i>(Note 12)</i>	-	6,215	-	6,069
	(17,341)	9,665	(28,245)	28,406
<b>Investing Activities</b>				
Deferred plan of arrangement costs	-	(3,350)	-	(3,350)
Capital expenditures	(13,559)	(16,615)	(47,939)	(60,317)
Changes in non-cash working capital <i>(Note 12)</i>	(14,691)	(7,867)	(13,635)	660
	(28,250)	(27,832)	(61,574)	(63,007)
Change in cash and short term investments	-	-	-	-
Cash and short-term investments, beginning of period	-	-	-	-
Cash and short-term investments, end of period	-	-	-	-

*See accompanying notes to the consolidated financial statements*

# PROGRESS ENERGY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Progress Energy Trust (“Progress” or the “Trust”) is an open-ended, unincorporated investment trust governed by the laws of the province of Alberta. The Trust was established as part of a Plan of Arrangement (the “Arrangement”) that became effective on July 2, 2004.

The Arrangement gave effect to the transaction contemplated by the agreement entered into on May 28, 2004 by Progress Energy Ltd. and Cequel Energy Inc. (“Cequel”) under which the two companies combined to create the Trust and two separate, publicly-listed, exploration-focused companies, ProEx Energy Ltd. (“ProEx”) and Cyries Energy Inc. (“Cyries”). The reorganization resulted in Progress Energy Ltd. shareholders receiving one trust unit or exchangeable share of the Trust and 0.2 of a share of ProEx and Cyries and Cequel shareholders receiving 0.695 trust units or exchangeable shares of the Trust and 0.139 of a share in each of ProEx and Cyries.

The conversion of Progress Energy Ltd. to a Trust has been accounted for as a continuity of interest. Accordingly, the consolidated financial statements for 2005 and 2004 reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly carried on by Progress Energy Ltd. The six months ended June 30, 2004 reflect the results of operations and cash flows of Progress Energy Ltd. and its subsidiaries prior to the Arrangement. Due to the conversion into an energy trust, certain information included in the financial statements for prior periods may not be directly comparable.

The term “units” has been used to identify both the Trust units and exchangeable shares of the Trust issued on or after July 2, 2004 as well as the common shares of Progress Energy Ltd. outstanding prior to the conversion on July 2, 2004.

### Relationship with ProEx Energy Ltd.

In conjunction with the Arrangement, the Trust entered into a technical services agreement (“Technical Service Agreement”) with ProEx where the Trust provides personnel and certain administrative and technical services in connection with the management, development, exploitation and operation of the assets of ProEx. As contemplated in the Arrangement, ProEx has granted performance shares to the employees of Progress as service providers. The Trust provides these services to ProEx on an expense reimbursement basis, based on ProEx’s monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx. Total expense reimbursed by ProEx for the three and six months ended June 30, 2005 was \$0.6 million and \$1.1 million, respectively (2004 – nil).

As at June 30, 2005, accounts payable included \$3.8 million (2004 – nil) payable to ProEx which includes standard joint venture amounts including revenue. These amounts were paid subsequent to June 30, 2005.

### 1. SUMMARY OF ACCOUNTING POLICIES

The interim consolidated financial statements of the Trust have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Trust for the year ended December 31, 2004 other than described in note 2. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Trust’s annual report for the year ended December 31, 2004.

Progress is involved in the exploration, development and production of petroleum and natural gas in British Columbia, Alberta and Saskatchewan. The consolidated financial statements include the accounts of the

Trust and its wholly owned subsidiary. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

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

## 2. CHANGE IN ACCOUNTING POLICY

### Exchangeable Securities – Non-Controlling Interest

On March 8, 2005 the accounting abstract “Exchangeable Securities Issued by Subsidiaries of Income Trusts” was amended effective for financial statements issued on or after June 30, 2005. Under the amended abstract, exchangeable shares are presented as equity of the Trust only if the exchangeable shares are entitled to receive distributions of earnings economically equivalent to distributions received by units of the trust and the holders of exchangeable shares can only dispose of them by exchanging them for trust units. The exchangeable shares of the Trust’s subsidiary trade on the Toronto Stock Exchange, thereby allowing holders of the exchangeable shares to dispose of them without having to exchange them for trust units and consequently, they must be classified as non-controlling interest outside of Unitholders’ Equity.

In accordance with the transitional provisions of the abstract, the Trust has retroactively restated prior periods dating back to the Arrangement dated July 2, 2004. As a result of this change in accounting policy, the Trust has reflected a non-controlling interest on the consolidated balance sheet of \$130.8 million as at June 30, 2005 and \$141.1 million as at December 31, 2004. Each redemption of exchangeable shares held by previous Progress Energy Ltd. shareholders are accounted for as a step-purchase, which for the six months ended June 30, 2005 and the year ended December 31, 2004 resulted in an increase in property, plant and equipment of \$12.3 million and \$10.4 million respectively, an increase of unitholders’ capital of \$8.0 million and \$6.8 million respectively and an increase in future income tax liability of \$3.7 million and \$3.4 million respectively. Cash flow was not impacted by this change. The change in accounting policy had no impact to the consolidated net earnings for the three and six months ended June 30, 2004 as the exchangeable shares were issued subsequent to those periods.

## 3. ACQUISITION OF CEQUEL ENERGY INC.

Under the Arrangement, Progress Energy Ltd. and Cequel amalgamated to create the Trust and two exploration-focused companies, ProEx and Cyries. The transaction was accounted for as a business combination with Progress being deemed the acquirer of Cequel, net of the assets acquired by Cyries. The consideration offered was 0.695 of a trust unit for each Cequel share resulting in 45,911,352 trust units and exchangeable shares being issued. The value of the transaction was \$646.2 million, including \$1.6 million of acquisition costs. The results of Cequel have been included in these consolidated financial statements from the date of acquisition. The transaction has been allocated as follows:

<b>Net assets acquired <sup>1</sup></b>	
Property, plant and equipment	387,276
Goodwill	405,655
Working capital deficiency	(11,079)
Bank debt	(44,473)
Asset retirement obligations	(6,670)
Future income taxes	(84,471)
<b>Total net assets acquired</b>	<b>646,238</b>
<b>Consideration</b>	

Trust units issued	518,272
Exchangeable shares issued	126,369
Acquisition costs	1,597
<b>Total purchase price</b>	<b>646,238</b>

<sup>1</sup> Pursuant to the Arrangement, assets acquired by Cyries from Cequel were accounted for prior to Progress acquiring Cequel. As a result, the acquisition of Cequel is net of the assets acquired by Cyries.

#### 4. PLAN OF ARRANGEMENT

On July 2, 2004, pursuant to the Arrangement, Progress Energy Ltd. transferred to ProEx certain prospective natural gas weighted assets and undeveloped land at their net book value. A future tax liability has been recorded as a result of transferring tax pools of \$32.5 million, which were in excess of the net book value of \$24.6 million. The details are as follows:

Petroleum and natural gas properties	26,377
Future income tax assets	2,768
Asset retirement obligations	(1,813)
<b>Total assets transferred</b>	<b>27,332</b>
Bank indebtedness assumed	(10,000)
<b>Net assets transferred and reduction in accumulated earnings</b>	<b>17,332</b>
Plan of arrangement costs, net of income tax benefit of \$7,101	12,844
<b>Total Plan of Arrangement and reduction in accumulated earnings</b>	<b>30,176</b>

In accordance with the Arrangement, all outstanding stock options of Progress Energy Ltd. vested and Progress Energy Ltd. accepted the holders' put right thereby settling the options for cash in the amount of \$21.9 million. The after tax value of the cash settlement, net of \$3.0 million of contributed surplus relating to the options, resulted in a charge of \$12.8 million to accumulated earnings. As a result, the remaining unamortized stock based compensation cost relating to options granted after 2002 of \$2.5 million was charged to earnings. The Trust also incurred \$0.8 million of severance costs, which together with the stock based compensation expense, have been included in plan of arrangement expense on the consolidated statement of earnings and accumulated earnings.

#### 5. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2005	December 31, 2004
Property, plant and equipment	801,438	752,846
Conversion of exchangeable shares	22,627	10,351
Accumulated depletion and depreciation	(164,912)	(119,817)
<b>Property, plant and equipment</b>	<b>659,153</b>	<b>643,380</b>

As described in note 2, the redemption of exchangeable shares held by previous Progress Energy Ltd. shareholders are accounted for as a step-purchase. Consequently a charge of \$12.3 million was made to property, plant and equipment for the six months ended June 30, 2005. The property, plant and equipment balance at December 31, 2004 has been restated as a result of this new accounting by a charge of \$10.4 million.

The calculation of 2005 depletion and depreciation expense included an estimated \$11.5 million for future development costs associated with proven undeveloped reserves and excluded \$22.8 million for the estimated

future net realizable value of production equipment and facilities and \$64.4 million for the estimated value of unproven properties. Depletion and depreciation expense for the three and six months ended June 30, 2005 was \$22.4 million and \$45.1 million, respectively (2004 - \$6.8 million and \$15.3 million).

Included in the Trust's property, plant and equipment balance is \$9.7 million, net of accumulated depletion, related to asset retirement obligations (\$15.0 million before accumulated depletion) (Refer to note 8).

The Trust capitalized approximately \$0.8 million of geological and geophysical expenses associated with the exploration and development of capital assets during the six months ended June 30, 2005 (\$0.9 million in 2004)

## 6. BANK DEBT

	June 30, 2005	December 31, 2004
Direct advances	2,171	1,222
Banker's acceptances	65,000	132,500
<b>Total bank debt</b>	<b>67,171</b>	<b>133,722</b>

The Trust's credit facilities totaling \$215 million are with a syndicate of banks consisting of a \$200 million extendible revolving term credit facility and a \$15 million working capital credit facility. The facilities are available on a revolving basis for a period of at least 364 days until May 30, 2006, and such initial term out date may be extended for further 364 day periods at the request of the Trust, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. Various borrowing options are available under the facilities including prime rate based advances and banker's acceptance loans. Average cost of borrowing under these facilities for the six months ended June 30, 2005 was 3.8 percent. The credit facilities are secured by a \$500 million fixed and floating charge debenture on the assets of the Trust and by a guarantee and subordination provided by Progress in respect of the Trust's obligations. The \$215 million borrowing base is subject to semi-annual review by the banks.

## 7. CONVERTIBLE DEBENTURES

On February 2, 2005 the Trust issued \$100 million principal amount of 6.75 percent convertible unsecured subordinated debentures (the "Debentures") for net proceeds of \$95.5 million. The Debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid trust units at a conversion price of \$15.00 per trust unit. The Debentures mature on June 30, 2010 at which time they are due and payable. The Trust may elect to satisfy the interest and principal obligations of the Debentures by the issuance of Trust Units. The net proceeds were used to reduce outstanding bank indebtedness.

The Debentures have been classified as debt net of the fair value of the conversion feature at the date of issue which has been classified as part of unitholders' equity and net of issue costs. Issue costs will be amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within interest and financing expense on the consolidated statements of earnings. If Debentures are converted to units, a portion of the value of the conversion feature under unitholders' equity will be reclassified to unitholders' capital along with the conversion price paid. The following table sets forth a reconciliation of the Debenture activity:

	Six Months Ended June 30 2005
Debt portion on February 2, 2005	90,541

Accretion	362
Amortization of issue costs	337
Debt portion, end of period	91,240
Equity portion	4,944
Total debentures, end of period	96,184

Total interest charged to earnings for the three months ended June 30, 2005 was \$2.1 million which includes \$0.2 million of debenture accretion and \$0.2 million of amortized issue costs.

Total interest charged to earnings for the six months ended June 30, 2005 was \$3.5 million which includes \$0.4 million of debenture accretion and \$0.3 million of amortized issue costs.

## 8. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations were estimated based on the Trust's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$42.9 million which will be incurred over the next 43 years with the majority of costs incurred between 2009 and 2020. A credit adjusted risk-free rate of eight percent was used to calculate the fair value of the asset retirement obligations.

The following reconciles the Trust's asset retirement obligations:

	Six Months Ended June 30	
	2005	2004
Balance, beginning of period	16,065	11,778
Liabilities incurred	652	558
Liabilities settled	(295)	(117)
Dispositions	-	(1,998)
Accretion expense	668	447
Balance, end of period	17,090	10,668

## 9. NON-CONTROLLING INTEREST - EXCHANGEABLE SHARES

The Trust retroactively applied the amended accounting abstract "Exchangeable Securities issued by a Subsidiary of an Income Trust" whereby the exchangeable shares issued by the Trust's subsidiary must be reflected as non-controlling interest on the consolidated balance sheet and in turn, net earnings must be reduced by the amount of net earnings attributed to the non-controlling interest.

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

The activity for non-controlling interest for the six months ended June 30, 2005 is as follows:

	Six months ended June 30			
	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of period	14,533,506	141,060	-	-
Exchanged for trust units	(1,787,326)	(17,588)	-	-
Non-controlling interest expense		7,296		-
Balance, end of period	12,746,180	130,768	-	-

The exchangeable shares can be converted, at the option of the holder into trust units at any time and are listed on the Toronto Stock Exchange under the symbol PGE. If the number of exchangeable shares outstanding is less than 1,600,000, the Trust can elect to redeem the exchangeable shares for trust units or an amount in cash equal to the amount determined by multiplying the exchange ratio on the last business day prior to the redemption date by the current market price of a trust unit on the last business day prior to such redemption date. The number of trust units issued upon conversion is based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly effective date. The exchangeable shares are not eligible for cash distributions.

#### Retraction of Exchangeable Shares

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

#### Redemption of Exchangeable Shares

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

## 10. UNITHOLDERS' CAPITAL

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

## Trust Units

	Six months ended June 30			
	2005		2004	
	Number	Amount	Number	Amount
<b>Trust Units</b>				
Balance, beginning of period	66,898,498	621,490	-	-
Exchangeable shares converted	1,921,915	25,631	-	-
Balance, end of period	68,820,413	647,121	-	-

## Redemption Right

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

## Net Earnings Per Unit

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Weighted average trust units - basic	68,713,016	34,156,844	68,199,255	33,959,077
Trust units issuable on conversion of exchangeable shares <sup>1</sup>	14,387,969	-	14,923,437	-
Performance units	74,887	-	67,333	-
Stock options	-	1,344,107	-	1,355,477
Warrants	-	843,390	-	925,507
Weighted average trust units - diluted	83,175,872	36,344,341	83,190,025	36,240,061

<sup>1</sup> Calculated based on the weighted average exchangeable shares outstanding during the period at the period end exchange ratio.

An adjustment to the numerator of \$3.4 million and \$7.3 million for the three and six months ended June 30, 2005 is required in the diluted earnings per unit calculation to provide for earnings attributable to non-controlling interest. Units potentially issuable on the conversion of the Debentures are anti-dilutive and are not included in the calculation of diluted weighted average units for the three and six months ended June 30, 2005.

## Performance Unit Incentive Plan

In conjunction with the Arrangement, the Trust established a Performance Unit Incentive Plan (the "Plan") for employees, directors, consultants and other service providers of the Trust or its subsidiary. The number of units reserved for issuance under the Plan shall not exceed 5% of the aggregate number of issued and outstanding units of the Trust and including the number of units which may be issued on the exchange of the

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

On December 2, 2004 the Board of Directors of Progress Energy Ltd. granted 395,267 PUIP’s retroactive to July 2, 2004. As a result, the fair value of the PUIP’s granted, calculated using a performance factor of 1.0, was approximately \$5.3 million which will be amortized through general and administrative expenses over the vesting period as unit compensation cost with a corresponding increase to contributed surplus. For the three and six months ended June 30, 2005 \$0.5 million and \$1.0 million (2004 – nil) was charged to general and administrative expenses. The distributions earned by the PUIP’s for the three and six months ended June 30, 2005 of \$0.2 million and \$0.3 million (2004 – nil) was charged to general and administrative expenses with a corresponding increase to liabilities.

The following table reconciles the Trust’s contributed surplus:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Balance, beginning of period	683	479	171	246
Unit based compensation expense	511	2,475	1,023	2,718
Options exercised	-	-	-	(10)
Options settled for cash	-	(2,954)	-	(2,954)
Balance, end of period	1,194	-	1,194	-

## 11. TAXES

Included in the future income tax provision for the three and six months ended June 30, 2005 is a charge of \$3.0 million due to adjustments relating to tax audits performed during the periods.

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Accounts receivable	2,574	(4,088)	7,114	(7,996)
Prepaid expenses and deposits	(934)	(636)	(339)	(172)
Accounts payables	(15,141)	3,406	(17,346)	16,737
Current income taxes payable	(65)	-	(222)	-
Change in non-cash working capital	(13,566)	(1,318)	(10,793)	8,569
Relating to:				
Financing activities	-	6,215	-	6,069
Investing activities	(14,691)	(7,867)	(13,635)	660
Operating activities	1,125	334	2,842	1,840

### Interest and taxes paid

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Interest paid	3,671	602	4,231	503
Income and other taxes paid	609	403	980	158

## 13. FINANCIAL INSTRUMENTS

### Commodity Price Contracts

The Trust has entered into several derivative natural gas financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital from the volatility of natural gas prices. For the three months ended June 30, 2005, the Trust's natural gas price risk management program had a net gain of \$0.1 million (2004 - \$1.3 million net loss, consisting of hedging charges of \$1.2 million for crude oil and \$0.1 million for natural gas), which is included in petroleum and natural gas revenue on the statements of earnings. For the six months ended June 30, 2005, the Trust's natural gas price risk management program had a net gain of \$2.9 million (2004 - \$1.6 million net loss, consisting of hedging charges of \$1.4 million for crude oil and \$0.2 million for natural gas).

Contracts outstanding in respect to financial instruments are as follows:

Contract	Volume	Pricing Point	Strike Price	Cost/ Premium	Term
<b>Natural Gas</b>					
Costless collar <sup>1</sup>	5,000 gj/d	AECO	Cdn\$6.25 – Cdn\$7.25	n/a	Apr 01/05 – Oct 31/05
Collar <sup>1</sup>	15,000 gj/d	AECO	Cdn\$6.25 – Cdn\$7.50	Cdn\$0.05/gj	Apr 01/05 – Oct 31/05
Collar <sup>1</sup>	15,000 gj/d	AECO	Cdn\$6.25 – Cdn\$7.40	Cdn\$0.01/gj	Apr 01/05 – Oct 31/05
Costless collar <sup>1</sup>	5,000 gj/d	AECO	Cdn\$7.50 – Cdn\$9.80	n/a	Nov 01/05 – Mar 31/06
Costless collar <sup>1</sup>	5,000 gj/d	AECO	Cdn\$7.50 – Cdn\$9.75	n/a	Nov 01/05 – Mar 31/06
Costless collar <sup>1</sup>	5,000 gj/d	AECO	Cdn\$7.75 – Cdn\$9.50	n/a	Nov 01/05 – Mar 31/06
Costless collar <sup>1</sup>	10,000 gj/d	AECO	Cdn\$8.00 – Cdn\$9.55	n/a	Nov 01/05 – Mar 31/06
Costless collar <sup>1</sup>	5,000 gj/d	AECO	Cdn\$8.35 – Cdn\$9.75	n/a	Nov 01/05 – Mar 31/06
Costless collar <sup>1</sup>	5,000 gj/d	AECO	Cdn\$8.30 – Cdn\$9.85	n/a	Nov 01/05 – Mar 31/06

<sup>1</sup> Collar strike price indicates minimum floor and maximum ceiling

The estimated fair value of the natural gas collars that qualify for hedge accounting was a loss of \$0.6 million as at June 30, 2005 and represents the amount the Trust would pay to terminate the contracts at June 30, 2005. These instruments have no carrying value recorded in the financial statements.

#### Physical Gas Sales Contracts

The Trust also enters into physical gas sales contracts from time to time under its risk management policy for the purpose of protecting its cash flow from operations before changes in non-cash working capital from the volatility of natural gas prices.

Contracts outstanding in respect to physical gas sales contracts were as follows:

Contract	Volume	Pricing Point	Strike Price	Cost/ Premium	Term
<b>Natural Gas</b>					
Costless collar	5,000 gj/d	AECO	Cdn\$6.25 – Cdn\$7.25	n/a	Apr 01/05 – Oct 31/05
Costless collar	5,000 gj/d	AECO	Cdn\$7.55 – Cdn\$9.85	n/a	Nov 01/05 – Mar 31/06

#### Commodity Sales Contract

The following physical gas sales contract was outstanding at June 30, 2005. This contract was acquired in conjunction with the acquisition of Champion Resources Ltd. on June 3, 2002, at which time the fair value of the contracts was a liability of \$4.1 million. This value was recorded as a liability on June 3, 2002, and is being amortized over the life of the contract. At June 30, 2005 the unamortized remaining liability was \$1.8 million.

Volume	Pricing Point	Progress Price	Term
1,000 gj/d	AECO	\$2.06/gj in 2005 escalating at 2.5% annually	Jun 1/97 – Oct 31/08

## SELECTED QUARTERLY INFORMATION

### FINANCIAL HIGHLIGHTS

(\$ thousands except per unit amounts)	Three Months Ended					
	2004				2005	
	March 31	June 30	Sept 30	Dec 31	March 31	June 30
<b>Income Statement</b>						
Petroleum and natural gas revenue	30,812	38,811	68,299	76,767	79,007	83,222
Cash flow <sup>1</sup>	14,928	17,833	36,355	41,344	42,511	44,466
Per unit - diluted	0.41	0.49	0.45	0.50	0.52	0.53
Cash distributions declared			27,670	28,035	28,574	28,874
Per trust unit			0.42	0.42	0.42	0.42
Net earnings	6,247	4,464	15,324	18,196	17,527	16,840
Per unit - diluted	0.17	0.12	0.24	0.28	0.27	0.24
<b>Payout Ratio</b>						
Excluding exchangeable shares			76%	68%	67%	65%
Including exchangeable shares			94%	83%	81%	79%
<b>Balance Sheet</b>						
Capital Expenditures	43,702	16,615	12,112	33,993	34,380	13,559
Total debt	82,252	106,061	151,580	171,543	187,312	185,708
Unitholders' equity	140,224	134,816	614,554	614,791	632,700	623,308
<b>Trust Units (thousands except where otherwise stated)</b>						
Units outstanding, end of period	33,939	35,238	66,164	66,898	68,646	68,820
Units issuable for exchangeable shares			15,575	15,291	13,992	14,281
Total units outstanding and issuable for exchangeable shares, end of period	33,761	34,156	81,739	82,189	82,638	83,101
Weighted average units – diluted <sup>2</sup>			81,016	81,979	82,485	83,176
Exchange ratio, end of period			1.02188	1.05215	1.08438	1.12038
<b>Trust Unit Trading Statistics (\$)</b>						
High			15.09	15.81	14.50	13.79
Low			12.12	12.95	12.52	11.90
Closing			14.95	13.52	13.38	13.03
Unit volume traded (thousands)			46,567	18,774	17,788	11,544
<b>Exchangeable Shares Trading Statistics (\$)</b>						
High			15.25	16.00	15.85	15.50
Low			13.00	13.55	13.96	13.27
Closing			15.25	14.11	14.60	14.96
Share volume traded (thousands)			272	95	1,460	290

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

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

## SELECTED QUARTERLY INFORMATION

### OPERATIONAL HIGHLIGHTS

	Three Months Ended					
	2004				2005	
	March 31	June 30	Sept 30	Dec 31	March 31	June 30
<b>Daily Production</b>						
Natural gas (mcf/d)	34,805	44,809	81,783	86,998	84,523	79,236
Crude oil (bbls/d)	2,227	2,160	2,475	2,475	2,550	3,067
Natural gas liquids (bbls/d)	329	325	1,197	1,394	1,598	1,305
Total daily production (boe/d)	8,357	9,953	17,302	18,368	18,235	17,578
<b>Average Realized Prices</b>						
Natural gas - before hedging (\$/mcf)	6.66	7.17	6.94	7.32	7.31	8.12
Natural gas - after hedging (\$/mcf)	6.63	7.16	6.99	7.45	7.69	8.13
Crude oil - before hedging (\$/bbl)	44.15	48.75	53.35	55.69	59.44	64.20
Crude oil - after hedging (\$/bbl)	43.12	42.47	47.31	48.21	59.44	64.20
Natural gas liquids (\$/bbl)	36.33	43.40	45.09	48.24	47.82	56.41
<b>Highlights (\$/boe)</b>						
Weighted average sales price	40.52	42.85	42.91	45.42	48.14	52.02
Royalties	9.39	10.99	10.52	11.58	11.78	13.16
Operating expenses	6.36	6.15	5.81	5.55	5.69	5.72
Transportation expenses	2.99	2.98	1.98	1.96	1.89	1.98
Operating Netbacks	21.78	22.73	24.60	26.33	28.78	31.16
General and administrative expense	1.29	0.69	1.22	1.24	1.54	1.65
Interest and financing expenses	0.66	0.69	0.70	0.69	1.26	1.80
Depletion, depreciation and accretion	8.97	9.47	13.09	13.57	14.05	14.19
Plan of arrangement expenses	-	3.69	-	-	-	-
Net earnings before taxes	10.86	8.19	9.59	10.83	11.93	13.52
Capital taxes	0.24	0.20	0.35	0.31	0.33	0.34
Future income taxes	2.41	3.06	(2.72)	(2.77)	(1.48)	0.55
Non-controlling interest – exchangeable shares	-	-	2.33	2.52	2.40	2.10
Net Earnings	8.21	4.93	9.63	10.77	10.68	10.53
<b>Drilling Results</b>						
Gross	28	5	10	21	24	8
Net – natural gas	14.9	2.5	6.2	6.9	9.9	3.3
Net – crude oil	2.4	2.0	0.0	2.6	1.2	0.0
Success Rate (percent)	79	83	100	100	89	78