

Q1

PROGRESS ENERGY LTD.

Progress

2004 QUARTERLY REPORT TO THE SHAREHOLDERS

FOR THE THREE MONTHS ENDED MARCH 31, 2004

HIGHLIGHTS

		Three Months Ended March 31		
		2004	2003	% Change
Financial	<i>(\$ thousands, except per share amounts)</i>			
	Gross revenue	30,812	29,446	+5
	Cash flow from operations	14,928	16,045	-7
	Basic per share	0.44	0.52	-15
	Diluted per share	0.41	0.48	-15
	Net earnings	6,247	6,470	-3
	Basic per share	0.19	0.21	-10
	Diluted per share	0.17	0.20	-15
	Capital expenditures	43,702	25,476	+72
Operations	Production			
	Crude oil (bbls/d)	2,227	2,094	+6
	Natural gas liquids (bbls/d)	329	311	+6
	Natural gas (mcf/d)	34,805	26,830	+30
	Total production (boe/d @ 6:1)	8,357	6,877	+22
	Average sales price			
	Crude oil (\$/bbl)	43.12	44.17	-2
	Natural gas liquids (\$/bbl)	36.33	38.99	-7
	Natural gas (\$/mcf)	6.63	8.30	-20
	Netback per boe (6:1) (\$)			
	Petroleum and natural gas sales	40.52	47.57	-15
	Royalties	9.39	10.35	-9
	Operating expenses	6.36	5.42	+17
	Transportation costs	2.99	2.47	+21
	Operating netback	21.78	29.33	-26

- A total of 28 (21.8 net) wells were drilled in the first quarter with the completion and tie-in of 22 (17.3 net) for an overall success rate of 79 percent.
- Drilled 6 natural gas discoveries (5.7 wells net) in British Columbia foothills and 15 new oil and gas (10.6 wells net) producers at Fort St. John in northeastern British Columbia.
- The Company spent \$43.7 million during the quarter and expects capital efficiencies on this expenditure to be similar to 2003.
- Production averaged 8,357 boepd a 22 percent increase from the same period last year.
- Facility startup issues delayed scheduled production increases but by the end of the quarter levels were on track at 10,000 boepd. Approximately 600 boepd of additional production will be brought on production following breakup.
- Over 120 kilometres of 3-D seismic located in the foothills fold belt and 85 square kilometres of 3-D at Osprey both in northeastern British Columbia were shot and processed.
- 27,500 acres of land complementing existing holdings mainly in proven oil and gas trends in northeastern British Columbia were added during the quarter. Total undeveloped land under Company control now exceeds 500,000 acres.

Progress is listed on the Toronto Stock Exchange, symbol PGX

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SHAREHOLDER UPDATE

PROGRESS ENERGY AND CEQUEL ENERGY ANNOUNCE COMBINATION AND CREATION OF A NEW ENERGY TRUST AND TWO SEPARATE EXPLORATION FOCUSED PRODUCERS

On April 26, 2004, Progress Energy Ltd. ("Progress" or "the Company") and Cequel Energy Inc. ("Cequel") jointly announced that their respective Boards of Directors unanimously approved a proposal to combine the two entities and create Progress Energy Trust (the "Trust"), a new oil and gas trust and two publicly listed, exploration-focused producers ("Progress ExploreCo" and "Cequel ExploreCo"), pursuant to a Plan of Arrangement. As a result of the proposed combination, shareholders of Progress will receive one trust unit or exchangeable share of Progress Energy Trust and one share in each of Progress ExploreCo and Cequel ExploreCo (prior to a planned five for one share consolidation) and Cequel shareholders will receive 0.695 trust units or exchangeable shares of Progress Energy Trust and 0.695 of a share in each of Progress ExploreCo and Cequel ExploreCo (prior to a planned five for one share consolidation). A maximum of 16 million exchangeable shares will be issued under the proposed combination.

The Trust will own approximately 90 percent of the existing producing assets of Progress and Cequel. Progress ExploreCo and Cequel ExploreCo will own certain of the prospective natural gas weighted assets and undeveloped lands of Progress and Cequel, respectively. Progress management will run the Trust and the Progress ExploreCo and Cequel management will run the Cequel ExploreCo.

An information circular detailing the Plan of Arrangement is anticipated to be mailed to security holders by the end of May. Shareholders' meetings to consider the reorganization will occur in late June 2004. The transaction is subject to the receipt of all necessary shareholder and regulatory approvals and consents. If approved the transaction is expected to close on or about July 2, 2004.

For further details of the combination transaction refer to the Progress press release of April 26, 2004.

EXPLORATION

In the first quarter of 2004, Progress largely concentrated its field activities in Northeastern British Columbia ("NEBC") drilling twenty four wells gross (18.3 net) in the region. Of this total, seventeen wells were completed as natural gas producers, four were completed as light oil wells and three wells were abandoned. Elsewhere, the Company drilled three 100 percent WI wells in Saskatchewan and one 50 percent well in Alberta.

In the foothills of NEBC six natural gas wells were drilled and are currently on production into Company controlled sales systems. Five wells were drilled at Town-Beg targeting the Halfway sands each testing sustained rates over 1.5 Mmcf/d, the best well flowing over 5 Mmcf/d. These wells are currently flowing at restricted rates while facility upgrades take place. One well was drilled on the Company's Altares acreage, 50 kilometres south of Town, resulting in a successful Bluesky gas discovery. Also in the foothills, on trend with the Company owned Town Halfway gas pool, over 120 square kilometres of 3-D seismic was shot and processed by the end of the quarter. This data has now been integrated with the Town 3-D program shot in the winter of 2003 from which the Company drilled eight 100 percent working interest successful gas discoveries. Progress currently controls over 80 percent of the lands within a thirty kilometre long Town-Gundy Creek anticline on the 3-D program. Drilling plans on this acreage utilizing this quarter's 3-D seismic survey are currently underway.

In the plains area of NEBC at Fort St. John ("FSJ"), an active exploration program targeting seismic imaged Cretaceous and Triassic zones, resulted in 11 new gas wells and 4 new oil producers. Four of these drills resulted in new light oil and gas production on the 50,000 acre farm-in blocks acquired in Q4 - 2003 through a farm-in from a US based independent producer. Further drilling activities within the farm-in block as well as on the Company's all season access acreage holdings at FSJ are currently planned for the balance of 2004-2005. Progress was also active on the seismic front in the first quarter in the Osprey operating area recording an 85 square kilometre 3-D program in a prospective Bluesky-Halfway fairway adjacent to existing producing properties.

The Company was successful in adding over 20,000 acres of prospective exploration lands within its FSJ plains block and over 7,500 acres in the foothills at Crown sales in the first quarter bringing the Company controlled undeveloped land inventory to over 500,000 acres.

Over 90 percent of the Company's drilling efforts for the quarter have been tied in and will be producing by mid - Q2 2004 albeit some at restricted rates while facility upgrades occur. Plans for the summer drilling season designed to take full advantage of the BC government's drilling incentive program are well underway.

First Quarter Drilling Results

	Gross Wells				Net Wells			
	Gas	Oil	Dry	Total	Gas	Oil	Dry	Total
British Columbia - Foothills	6	-	-	6	5.7	-	-	5.7
British Columbia – FSJ Plains	11	4	3	18	8.2	2.4	2.0	12.6
Alberta	-	-	1	1	-	-	0.5	0.5
Saskatchewan	1	-	2	3	1.0	-	2.0	3.0
Total	18	4	6	28	14.9	2.4	4.5	21.8

ACQUISITION AND DIVESTMENTS

During the quarter the Company initiated a disposition process consisting of a package of non-core south east Saskatchewan assets totaling 155 boe per day of production. Purchase and sale agreements have been signed with closing dates scheduled for the second quarter. Proceeds of these sales total \$4.2 million. This remains consistent with the Company's ongoing strategy of building area dominance through disciplined strategic purchases within core areas as well as sales of non-core assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis as provided by the management of Progress Energy Ltd. as of May 13, 2004, should be read in conjunction with the unaudited consolidated interim financial statements for the three months ended March 31, 2004 and 2003 and the audited consolidated financial statements for the year ended December 31, 2003.

The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles. The reporting and the measurement currency is the Canadian dollar.

Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles ("GAAP") as an indicator of the Company's performance. Progress' determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the unaudited interim financial statements. The Company also presents cash flow from operations per share whereby per share amounts are calculated using the weighted average shares outstanding consistent with the calculation of earnings per share.

PRODUCTION

	Three Months Ended March 31	
	2004	2003
Daily Production		
Crude oil (<i>bbls/d</i>)	2,227	2,094
Natural gas liquids (<i>bbls/d</i>)	329	311
Natural gas (<i>mcf/d</i>)	34,805	26,830
Total (<i>boe/d</i>)	8,357	6,877

For the three months ended March 31, 2004, Progress increased production 22 percent to 8,357 boe per day compared to 6,877 boe per day for the same period in 2003. This increase is a result of successful drilling and tie-in activities during the last half of 2003. Oil and liquids production for the three months ended March 31, 2004 increased six percent to 2,556 bbls per day from 2,405 bbls per day for the same period in 2003. The increase in oil and liquids production was limited due to the disposition of approximately 250 bbls per day of production from oil producing properties in Manitoba and south east Saskatchewan during the fourth quarter of 2003. Natural gas production increased 30 percent to 34,805 mcf per day during the three months ended March 31, 2004 compared to 26,830 mcf per day for the same period in 2003. The increase in natural gas production is due to successful drilling in the foothills and FSJ plains areas of British Columbia and Unity Saskatchewan during 2003.

Average production for the quarter of 8,357 boe per day was lower than the fourth quarter of 2003 of 8,483 boe per day largely due to continued on stream efficiency issues at the Company's Town and Beg properties. The high activity levels and resulting success taxed the Company's existing facilities resulting in significant disruptions during the quarter. Tie in work and facility expansions, that were completed late in the quarter and into April, have improved this situation.

Natural gas production increased five percent over the fourth quarter of 2003 with sales of 34,805 mcf per day for the three month period March 31, 2004 compared to 33,237 mcf per day for the three months ended December 31, 2003.

During the first quarter the Company completed a substantial portion of its capital program including the drilling of 28 wells and the installation of compressors and various tie-in projects. The Company completed compressor projects at Town, Begg, Montney and Currant in British Columbia. Facility startup issues delayed scheduled production increases but by the end of the quarter levels were on track at 10,000 boepd. Approximately 600 boepd of additional production will be brought on production following breakup.

Oil and liquids production of 2,556 bbls per day for the first quarter of 2004 was 13 percent lower than the fourth quarter of 2003 of 2,944 bbls per day due to the disposition of oil producing wells in Manitoba and south east Saskatchewan at the end of 2003 and cold weather disruptions experienced in January and February 2004.

Given the proposed combination described above with Cequel Energy Inc., the Company will reduce its capital activity for the second quarter from what was originally budgeted and concentrate on maintaining current production and meeting its operating commitments.

COMMODITY MARKETS

Crude oil prices continue to trend upward during 2004. WTI starting the year off at approximately US\$34.00 per barrel and now is trading over US\$40.00 per barrel. Terrorist attacks and concern over the US crude oil and gasoline inventories are putting unprecedented pressure on prices. The next OPEC meeting is scheduled for June

3rd at which time they are expected to talk about formally increasing the basket price range by US\$2.00 to US\$22.00 – 28.00 per barrel.

Natural gas prices remained robust over the first quarter of 2004. Strong winter demand, aggressive storage withdrawals and high crude oil prices all helped in supporting the natural gas prices over this winter season. A sharp run up in natural gas prices in early May has occurred as demand for storage re-injection and anticipation for cooling load picks up.

The Canadian/United States foreign exchange rate has had a positive impact on the realized commodity prices over the quarter with the exchange rate beginning the quarter in January at 1.296 (0.77) and moving to a current rate of 1.378 (0.725).

COMMODITY PRICING

For the three months ended March 31, 2004, Progress realized the following commodity prices compared to the same period in 2003.

Average Realized Progress Prices	Three Months Ended March 31	
	2004	2003
Crude oil (before hedging) (\$/bbl)	44.15	47.64
Hedging (\$/bbl)	(1.03)	(5.45)
Change in fair value of financial instrument (\$/bbl)	-	1.98
Crude oil (after hedging) (\$/bbl)	43.12	44.17
Natural gas (before hedging) (\$/mcf)	6.66	8.21
Hedging (\$/mcf)	(0.09)	(0.01)
Amortization of commodity sales contract (\$/mcf)	0.06	0.10
Natural gas (after hedging) (\$/mcf)	6.63	8.30
Natural gas liquids (\$/bbl)	36.33	38.99

From time to time the Company enters into fixed price swaps and options on crude oil and natural gas. The commodity prices recorded above are net of the effects of commodity price hedging charges of \$0.5 million (\$1.0 million in 2003), partially offset by the amortization of a commodity sales contract of \$0.2 million (\$0.2 million in 2003). Hedging charges in 2003 were also partially offset by a change in fair value of financial instrument of \$0.4 million. The amortization of the commodity sales contract relates to a physical natural gas sales contract acquired in conjunction with the acquisition of Campion Resources Ltd. At the time of the acquisition the fair value of the contract was a liability of \$4.1 million. This value was recorded as a liability and is being amortized over the life of the contract. The change in fair value of financial instrument relates to a written crude oil call option sold in 2002 for the first quarter of 2003 that did not qualify for hedge accounting. The change in its fair value of \$0.4 million was charged to petroleum and natural gas revenue during the year ended December 31, 2002 and reversed as an increase to petroleum and natural gas revenue during the first quarter of 2003 as the option expired.

For detailed disclosure of Progress' hedging transactions refer to Note 9, Financial Instruments in the Consolidated Financial Statements attached.

REVENUES

For the three months ended March 31, 2004, revenues increased five percent to \$30.8 million from \$29.4 million for the same period in 2003 due to higher production volumes being largely offset by the decrease in commodity prices.

ROYALTIES

For the three months ended March 31, 2004, royalties increased 11 percent to \$7.1 million from \$6.4 million for the same period in 2003. The Company's average royalty rate for the three months ended March 31, 2004 was 22.9 percent (after removing the effects of hedging charges) compared to 21.4 percent in 2003. The increase is due to higher production volumes on farm-in lands.

OPERATING EXPENSES

Operating expenses increased 44 percent to \$4.8 million during the three months ended March 31, 2004 compared to \$3.4 million during the same period in 2003. On a boe basis, year to date operating expenses increased 17 percent to \$6.36 per boe from \$5.42 per boe in the same period in 2003. This increase is primarily due to the added cost of bringing on the newly commissioned facilities and wells without seeing the full production capability within the same quarter. The Company is focused on reducing operating costs going forward and it is anticipated that higher production in these new core areas will reduce operating costs.

TRANSPORTATION COSTS

Transportation costs increased 48 percent to \$2.3 million for the three months ended March 31, 2004 compared to \$1.5 million for the same period in 2003. On a boe basis this amounted to \$2.99 per boe for the first quarter of 2004 compared to \$2.47 per boe for the same period in 2003. The increase is mainly due to a greater proportion of production from British Columbia where rates are higher. 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 costs.

GENERAL AND ADMINISTRATIVE EXPENSES

During the first quarter of 2004, net general and administrative expenses increased to \$1.0 million from \$0.9 million in the first quarter of 2003. The increase is due to the increase in full-time and contract staff required as a result of the increased size of the Company's operations, as well as \$0.2 million in stock based compensation expense recognized in the first quarter of 2004 (2003 – nil). The net general and administrative expense for the first quarter of 2004 is net of \$1.4 million of recoveries and amounts capitalized compared to \$0.8 million for the first quarter of 2003.

INTEREST

Interest during the first quarter of 2004 was \$0.5 million compared to \$0.4 million for the same period in 2003. The increase is due to higher average debt levels due to the growth of the Company over the past year.

INCOME AND CAPITAL TAXES

Capital taxes were \$0.2 million for the first quarter of 2004 and 2003. The provision for future income taxes for the three months ended March 31, 2004 decreased to \$1.8 million from \$4.6 million in same period in 2003. The decrease is due to a \$1.6 million future income tax recovery for a one percent reduction to the Alberta corporate income tax rate and reductions to the Company's federal tax provision. Consequently the effective tax rates (excluding capital taxes) for the three months ended March 31, 2004 was 22.1 percent compared to 40.6 percent during the same period in 2003.

DEPLETION, DEPRECIATION AND ACCRETION

For the three months ended March 31, 2004, depletion and depreciation of capital assets and the accretion of the asset retirement obligations increased 21 percent to \$6.8 million from \$5.7 million for the same period in 2003. The increase is due to higher production in 2004. On a boe basis depletion, depreciation and accretion for the three months ended March 31, 2004 decreased to \$8.97 from \$9.14 per boe in the same period in 2003. The decrease in boe depletion charges is a result of the lower cost of reserve additions during the latter part of 2002 and during 2003.

NET EARNINGS AND CASH FLOW FROM OPERATIONS

Net earnings decreased three percent to \$6.2 million for the three months ended March 31, 2004 compared to \$6.5 million during the same period in 2003. The decrease was mainly due to lower cash flows from operations and higher total depletion, depreciation and accretion charges over the same period in 2003. Net earnings per share for the quarter were \$0.19 per share compared to \$0.21 per share during the first quarter of 2003. Similarly, diluted net earnings per share for the quarter were \$0.17 per share compared to \$0.20 per share during the first quarter of 2003. Cash Flow from operations decreased seven percent to \$14.9 million for the three months ended March 31, 2004 compared to \$16.0 million during the same period in 2003 due mainly to lower commodity prices. Cash flow from operations per share for the quarter were \$0.44 per share compared to \$0.52 per share during the first quarter of 2003. Diluted cash flow from operations per share for the quarter were \$0.41 per share compared to \$0.48 per share during the first quarter of 2003.

CAPITAL EXPENDITURES

During the three months ended March 31, 2004 the Company spent approximately \$43.7 million in capital expenditures compared to \$25.5 million in the first quarter of 2003. The Company drilled 28 gross (21.8 net) wells with a success rate of 79 percent, shot two 3-D seismic programs, and added over 27,500 net undeveloped acres of land in the quarter.

<i>(\$ thousands)</i>	Three Months Ended	
	2004	March 31 2003
Land acquisitions and retention	4,248	2,994
Geological and geophysical	4,862	3,178
Drilling and completions	23,205	12,753
Equipping and facilities	10,683	5,346
Net property acquisitions (dispositions)	383	1,090
Other	321	115
Total capital expenditures	43,702	25,476

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004 the Company had outstanding on its credit facility approximately \$62.0 million, a working capital deficiency of \$20.2 million, totaling \$82.2 million of total net debt. The Company has a credit facility of \$100 million at March 31, 2004.

<i>(\$ thousands)</i>	March 31, 2004	December 31, 2003
Net debt		
Working capital deficiency	20,247	10,360
Bank debt	62,005	45,073
	82,252	55,433

The Company's investing activities which consisted primarily of expenditures on the capital program for 2004 has been funded primarily with cash flow and additional net debt. The issuance of equity during the period was from the exercise of options.

<i>(\$ thousands)</i>	Three Months Ended	
	March 31	
	2004	2003
Investment Program Funding		
Cash flow from operations	14,928	16,045
Changes in non-cash operating working capital	1,506	606
Increase (decrease) in bank debt	16,932	(1,727)
Issue of shares (net of share issue costs)	1,955	59
Change in non-cash financing working capital	(276)	-
Cash position, beginning of period	-	2,946
	35,045	17,929

As at May 12, 2004 the issued and outstanding common shares of the Company were 33,938,557, options outstanding were 2,501,157 and warrants outstanding of 1,253,498.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2004, the Company adopted the new Canadian accounting standard for asset retirement obligations. The March 31, 2003 first quarter financial statements have been restated to reflect this change resulting in a reduction of \$0.1 million to net earnings. Effective January 1, 2004, and consistent with the adoption of the new Canadian accounting standard for generally accepted accounting principles, transportation costs have been reclassified as an expense in the consolidated statements of earnings and retained earnings for the three months ended March 31, 2004 and 2003. Previously, as was industry practice, transportation costs were netted off revenue. Also effective January 1, 2004, the Company adopted the new Canadian guidelines for oil and gas accounting using the full cost method and hedging relationships. The adoption of these guidelines had no impact on the results of operations or financial position of the Company for the three month periods ended March 31, 2004 and 2003.

OUTLOOK

On April 26, 2004 Progress announced a merger with Cequel to form a Trust and simultaneously create two exploration companies each receiving approximately 1,000 boepd with associated lands and a modest farmin covering higher risk exploratory acreage from the trust. This agreement is expected to provide Progress shareholders with increased upside benefits including providing higher leverage to growth with an interest in the new exploration companies and participating in stable tax-efficient returns from the Company's now mature producing assets. Going forward the same technical and management teams that were responsible for success at Progress and Cequel will continue in the newly formed entities. This transaction is expected to have shareholder approval in June 2004 resulting in the new entities beginning business on July 2, 2004, essentially the beginning of the third quarter of the year.

As a consequence of this transaction Progress has committed in the interim to largely spend maintenance capital ensuring that production volumes stay in line with projections. Also the Company has begun the assignment of aligning human resources reflecting the composition of the new trust and exploration company.

Drilling plans utilizing the merged Gundy Creek-Town 3-D seismic programs are well underway currently providing for field activities through the first quarter of 2005. In the plains of FSJ, additional seismic coverage as a result of this past winter's shoots and data purchases are being interpreted that will add to the Company's existing inventory of drill ready sites. Field surveys of potential summer-autumn drill sites are now underway

that in addition plan for potential pipeline routes and facility sites. In British Columbia the Company will be participating in several significant Crown landsales in the second quarter in existing operating areas.

In Saskatchewan Progress will drill three wells in the second quarter targeting shallow gas in the Mannville formation identified from proprietary seismic data. This project is in close proximity to existing gathering systems and, assuming success, could be on-stream by early Q3. In Alberta the Company has committed to drill a long reach horizontal well in a sweet light oil reservoir that had been minimally exploited by the previous operator. Success with this well has the ability to lead to a multi-well development program.

The employees and management of Progress are genuinely excited by the benefits of the proposed transformation of our Company that will see the combination of two strong natural gas focused companies which will in turn form the Progress Energy Trust and two exciting exploration companies. We look forward to the new opportunities and challenges that this next step has provided for all shareholders and will strive to differentiate ourselves through the continued focus on the geosciences and the operational activities that built Progress over the past thirty months.

On behalf of the Board of Directors,

(Signed) “David D. Johnson”

David D. Johnson

PROGRESS ENERGY LTD

CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	March 31, 2004	December 31, 2003
	<i>(Unaudited)</i>	<i>(Audited) (Restated Note 2)</i>
ASSETS		
Current		
Accounts receivable	19,111	15,203
Prepaid expenses and deposits	2,326	2,790
	21,437	17,993
Property, plant and equipment	262,720	225,119
Goodwill	9,000	9,000
	293,157	252,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	41,684	28,353
	41,684	28,353
Bank debt <i>(Note 4)</i>	62,005	45,073
Commodity sales contract <i>(Note 9)</i>	2,658	2,856
Asset retirement obligations <i>(Notes 2 and 5)</i>	12,485	11,778
Future income taxes <i>(Note 7)</i>	34,101	32,274
	152,933	120,334
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 6)</i>	98,718	96,752
Contributed surplus <i>(Note 6)</i>	479	246
Retained earnings	41,027	34,780
	140,224	131,778
Subsequent event <i>(Note 10)</i>		
	293,157	252,112

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY LTD.
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
(Unaudited)

	Three Months Ended March 31	
<i>(\$ thousands, except per share amounts)</i>	2004	2003 <i>(Restated Note 2)</i>
REVENUES		
Petroleum and natural gas	30,812	29,446
Royalties (net of Alberta Royalty Tax Credit)	(7,143)	(6,408)
	23,669	23,038
EXPENSES		
Operating	4,840	3,355
Transportation <i>(Note 2)</i>	2,271	1,531
General and administrative	978	861
Interest	501	418
Depletion, depreciation and accretion	6,823	5,654
	15,413	11,819
Earnings before taxes	8,256	11,219
TAXES		
Capital taxes	181	189
Future income taxes <i>(Note 7)</i>	1,828	4,560
	2,009	4,749
NET EARNINGS	6,247	6,470
Retained earnings, beginning of period	36,290	14,800
Retroactive application of change in accounting policy <i>(Notes 2 and 5)</i>	(1,510)	(1,119)
Retained earnings, beginning of period, as restated	34,780	13,681
Retained earnings, end of period	41,027	20,151
NET EARNINGS PER SHARE <i>(Note 6)</i>		
Basic	0.19	0.21
Diluted	0.17	0.20

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31	
<i>(\$ thousands)</i>	2004	2003
Cash provided by (used in)		<i>(Restated Note 2)</i>
Operations		
Net earnings	6,247	6,470
Depletion, depreciation and accretion	6,823	5,654
Amortization of commodity sales contract	(198)	(231)
Stock based compensation expense	243	-
Asset retirement expenditures	(15)	(35)
Change in fair value of financial instrument	-	(373)
Future income taxes	1,828	4,560
Cash flow from operations	14,928	16,045
Changes in non-cash working capital <i>(Note 8)</i>	1,506	606
	16,434	16,651
Financing		
Increase (decrease) in bank debt	16,932	(1,727)
Issue of shares	1,955	59
Changes in non-cash working capital <i>(Note 8)</i>	(276)	-
	18,611	(1,668)
Investing		
Capital expenditures	(43,702)	(25,476)
Change in non-cash working capital <i>(Note 8)</i>	8,657	7,547
	(35,045)	(17,929)
Increase (decrease) in cash and short-term investments	-	(2,946)
Cash and short-term investments, beginning of period	-	2,946
Cash and short-term investments, end of period	-	-

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ACCOUNTING POLICIES

The interim consolidated financial statements of Progress Energy Ltd. (the “Company”) have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended December 31, 2003. 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 Company’s annual report for the year ended December 31, 2003.

Progress Energy Ltd. 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 Company, its wholly owned subsidiaries and partnership. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

2. CHANGES IN ACCOUNTING POLICIES

Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the new Canadian accounting standard for asset retirement obligations. Under this new standard, the Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability and any remaining difference is recognized as a gain or loss to earnings in the period in which the settlement occurs. The impact of the adoption of the new standard is described in note 5.

Full Cost Accounting Guideline

Effective January 1, 2004, the Company adopted the new Canadian accounting guideline for oil and gas accounting using the full cost method. Under this new guideline, oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate. The impact of the adoption of the new guideline is described in note 3.

Hedging Relationships

Effective January 1, 2004, the Company adopted the new Canadian accounting guideline for hedging relationships. The guideline describes the conditions necessary for a transaction to qualify for hedge accounting, the formal documentation required to enable the use of hedge accounting and the requirements to

5. ASSET RETIREMENT OBLIGATIONS

The new accounting standard, as outlined in note 2, was adopted retroactively with restatement of prior periods presented for comparative purposes. The effect of the adoption on previously reported amounts is presented below as increases (decreases):

Balance Sheet (<i>\$ thousands</i>)	December 31,	As at
	2003	December 31,
		2002
Asset retirement costs, included in property plant and equipment	5,477	7,682
Asset retirement obligations	11,778	11,987
Site restoration and abandonment liability	(3,965)	(2,574)
Future income taxes	(826)	(612)
Retained earnings	(1,510)	(1,119)

Income Statement (<i>\$ thousands, except per share amounts</i>)	Three Months	Year Ended
	Ended	December 31,
	March 31, 2003	2003
Depletion, depreciation and accretion	81	379
Future income taxes	(29)	(134)
Net earnings	(52)	(245)
Net earnings per share – basic and diluted	-	(0.01)

The total future asset retirement obligations was estimated based on the Company'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 \$31.4 million which will be incurred over the next 57 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 Company's asset retirement obligations:

<i>(\$ thousands)</i>	Three Months Ended		Year Ended
	2004	March 31	December 31
		2003	2003
Balance, beginning of period	11,778	11,987	11,987
Liabilities incurred	490	376	1,731
Liabilities settled	(15)	(35)	(2,912)
Accretion expense	232	244	972
Balance, end of period	12,485	12,572	11,778

6. SHARE CAPITAL

<i>(\$ thousands – except share amounts)</i>	Three months ended March 31			
	2004		2003	
	Number	Amount	Number	Amount
Common Shares				
Balance at beginning of period	33,411,094	96,476	30,911,781	74,477
Issued on exercise of stock options	527,463	1,966	25,063	59
Balance at March 31	33,938,557	98,442	30,936,844	74,536
Warrants				
Balance at March 31	1,253,498	276	1,253,498	276
Total share capital		98,718		74,812

As at May 12, 2004 the issued and outstanding common shares of the Company were 33,938,557, options outstanding were 2,501,157 and warrants outstanding of 1,253,498.

Earnings per share

The following table summarizes the common shares used in calculating net earnings per common share.

	Three Months Ended March 31	
	2004	2003
Weighted Average Common Shares		
Basic	33,761,310	30,922,445
Diluted	36,135,780	33,141,912

The reconciling items between the basic and diluted average common shares are outstanding stock options and warrants.

Stock options

The following table sets forth a reconciliation of the stock option plan activity through to March 31, 2004.

<i>(\$ except share amounts)</i>	Number of options	Weighted average exercise price
Balance, December 31, 2003	3,205,938	5.91
Granted	17,000	12.75
Cancelled	-	-
Exercised	(527,463)	3.71
Balance, March 31, 2004	2,695,475	6.38

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged to administrative expense for stock options granted to employees and directors after 2002 with a corresponding increase to contributed surplus. The Company adopted this method in the fourth quarter of 2003 to coincide with the amended stock based compensation standard. This change had an immaterial impact on the financial position and results of operations of the Company for the first quarter of 2003 and consequently there has been no restatement of the financial statements for the three months ended March 31, 2003.

The following table reconciles the Company's contributed surplus:

<i>(\$ thousands)</i>	Three Months Ended March 31	
	2004	2003
Balance, beginning of period	246	-
Stock based compensation expense	243	-
Options exercised	(10)	-
Balance, end of period	479	-

The Company continues to disclose the pro forma earnings impact of stock options granted in 2002. If the fair value method had been used for options granted in 2002, the Company's net earnings and net earnings per share for the periods ended March 31, 2004 and 2003 would approximate the following pro forma amounts:

	Three Months Ended March 31	
	2004	2003
Net Earnings:		
As reported	6,247	6,470
Pro forma	6,014	6,226
Net Earnings per Share:		
Basic		
As reported	0.19	0.21
Pro forma	0.18	0.20
Diluted		
As reported	0.17	0.20
Pro forma	0.17	0.19

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	Three Months Ended March 31	
	2004	2003
Risk free interest rate (%)	3.29	4.08
Expected life (years)	4.00	4.00
Expected volatility (%)	34	33
Results		
Weighted average fair value of options granted (\$)	4.05	2.56

7. TAXES

The provision for future income taxes for the three months ended March 31, 2004 includes a \$1.6 million future income tax recovery for a one percent reduction to the Alberta corporate income tax rate and reductions to the Company's federal tax provision.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

(\$ thousands)	Three Months Ended March 31	
	2004	2003
Accounts receivable	(3,908)	(3,652)
Prepaid expenses and deposits	464	337
Accounts payables	13,331	11,468
Change in non-cash working capital	9,887	8,153
Relating to:		
Financing activities	(276)	-
Investing activities	8,657	7,547
Operating activities	1,506	606

Interest and taxes paid

(\$ thousands)	Three Months Ended March 31	
	2004	2003
Interest paid	503	484
Income and other taxes paid	158	56

9. FINANCIAL INSTRUMENTS

Commodity Price Contracts

The Company has entered into several derivative financial instruments for both crude oil and natural gas for the purpose of protecting its future earnings and cash flow from operations from the volatility of crude oil and natural gas commodity prices. For the three months ended March 31, 2004, the Company's crude oil and natural gas price risk management program had a net cost of \$0.3 million (2003 - \$0.4 million).

Contracts outstanding in respect to financial instruments are as follows:

Contract	Volume	Pricing Point	Strike Price	Cost/ Premium	Term
Crude Oil					
Costless collar ¹	400 bbls/d	WTI	US\$26.00-US\$31.25	n/a	Apr 01/04 – Jun 30/04
Collar ¹	800 bbls/d	WTI	US\$23.00-US\$30.00	US\$0.675/bbl	Apr 01/04 – Dec 31/04
Natural Gas					
Collar ¹	10,000 gj/d	AECO	CDN\$5.00 – CDN\$6.50	US\$0.15/gj	Apr 01/04 – Oct 31/04
Costless collar ¹	5,000 gj/d	AECO	CDN\$5.50 – CDN\$6.35	n/a	Apr 01/04 – Jun 30/04
Costless collar ¹	5,000 gj/d	AECO	CDN\$5.70 – CDN\$7.00	n/a	Apr 01/04 – Oct 31/04
Costless collar ¹	5,000 gj/d	AECO	CDN\$5.75 – CDN\$7.00	n/a	Jul 01/04 – Oct 31/04

(1) Collar strike price indicates minimum floor and maximum ceiling

At March 31, 2004 the estimated fair values of the above financial instruments were as follows:

<i>(\$ thousands)</i>	Receivable (Payable)
Crude oil options	(1,511)
Natural gas options	(50)

The above estimated fair values as at March 31, 2004 represent the amounts the Company would receive or pay to terminate the contracts at March 31, 2004. These instruments have no carrying values recorded in the financial statements.

Commodity Sales Contract

The following physical gas sales contract was outstanding at March 31, 2004. This contract was acquired in conjunction with the acquisition of Campion 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 March 31, 2004 the remaining liability was \$2.7 million.

Volume	Pricing Point	Progress Price	Term
1,000 gj/d	AECO	\$2.01/gj in 2004 escalating at 2.5% annually	Jun 1/97 – Oct 31/08

10. SUBSEQUENT EVENT

On April 26, 2004 the Company and Cequel Energy Inc. jointly announced the combination of the two companies to create Progress Energy Trust and two publicly listed, exploration-focused companies, “Progress ExploreCo” and “Cequel ExploreCo”, pursuant to a Plan of Arrangement. Under the proposed combination Progress shareholders will receive one trust unit or exchangeable share of Progress Energy Trust and one share in each of Progress ExploreCo and Cequel ExploreCo. Cequel shareholders will receive 0.695 trust units or exchangeable shares of Progress Energy Trust and 0.695 of a share in each of Progress ExploreCo and Cequel ExploreCo (prior to a planned five for one share consolidation in each exploration company). The Plan of Arrangement requires approval of 66 2/3 percent of the votes cast by shareholders, optionholders and warrant holders of Progress and Cequel at each company’s respective shareholder meetings expected to occur in late June 2004, the approval of the Court of Queen’s Bench of Alberta and certain regulatory agencies. Under certain circumstances, Progress and Cequel have agreed to pay a reciprocal non-completion fee of \$7.5 million.

SELECTED QUARTERLY INFORMATION

FINANCIAL HIGHLIGHTS

(\$ thousands except per share amounts)

	Three Months Ended 2003				2004
	March 31	June 30	Sept 30	Dec 31	March 31
Income Statement					
Petroleum and natural gas sales	29,446	24,921	24,958	28,213	30,812
Cash flow from operations	16,045	12,502	12,317	13,390	14,928
Per share - basic	0.52	0.40	0.39	0.41	0.44
Per share - diluted	0.48	0.37	0.37	0.39	0.41
Net earnings	6,470	6,835	3,647	4,293	6,247
Per share - basic	0.21	0.22	0.12	0.13	0.19
Per share - diluted	0.20	0.20	0.11	0.12	0.17
Balance Sheet					
Capital Expenditures					
Land acquisitions and retention	2,994	3,884	962	4,159	4,248
Geological and geophysical	3,178	864	1,046	1,434	4,862
Drilling and completions	12,753	6,586	14,420	11,915	23,205
Equipping and facilities	5,346	2,869	8,007	7,695	10,683
Net property acquisitions (dispositions)	1,090	926	266	(6,442)	383
Corporate assets	115	63	67	97	321
	25,476	15,192	24,768	18,858	43,702
Total debt					
Bank debt	41,659	52,606	53,624	45,073	62,005
Working capital deficiency (surplus)	14,659	5,142	16,543	10,360	20,247
	56,318	57,748	70,167	55,433	82,252
Shareholders' equity	96,134	104,288	108,081	133,288	140,224
Common Share Information (thousands except where otherwise stated)					
Shares outstanding at end of period					
- Common	30,937	31,320	31,327	33,411	33,939
Weighted average shares outstanding for the period					
- Basic	30,922	31,104	31,325	32,600	33,761
- Diluted	33,142	33,401	33,620	34,688	36,136
Volume traded	7,089	9,593	5,713	3,662	6,886
Common share price (\$)					
- High	9.20	11.50	10.85	12.51	15.95
- Low	7.40	7.05	8.90	9.55	12.00
- Closing	8.10	9.90	9.85	12.50	14.26

SELECTED QUARTERLY INFORMATION

OPERATIONAL HIGHLIGHTS

	Three Months Ended 2003				2004
	March 31	June 30	Sept 30	Dec 31	March 31
Production					
Natural gas (mcf/d)	26,830	26,873	28,736	33,237	34,805
Crude oil (bbls/d)	2,094	2,260	2,358	2,629	2,227
Natural gas liquids (bbls/d)	311	284	289	315	329
Total (boe/d) (6:1)	6,877	7,022	7,436	8,483	8,357
Total (boe/d) (10:1)	5,088	5,231	5,521	6,268	6,037
Pricing					
Natural gas (before hedging) (\$/mcf)	8.21	6.76	6.03	5.89	6.66
Hedging (\$/mcf)	(0.01)	(0.04)	(0.04)	0.09	(0.09)
Amortization of commodity sales contract	0.10	0.08	0.08	0.06	0.06
Natural gas (after hedging) (\$/mcf)	8.30	6.80	6.07	6.04	6.63
Crude oil (before hedging) (\$/bbl)	47.64	37.54	37.69	37.73	44.15
Hedging (\$/bbl)	(5.45)	(0.70)	(0.55)	(1.38)	(1.03)
Change in fair value of financial instrument	1.98	-	-	-	-
Crude oil (after hedging) (\$/bbl)	44.17	36.84	37.14	36.35	43.12
Natural gas liquids (\$/bbl)	38.99	27.85	32.10	32.71	36.33
Selected Highlights (\$/boe)					
Weighted average sales price	47.57	39.00	36.48	36.15	40.52
Royalties, net of ARTC	10.35	8.15	7.19	7.76	9.39
Operating expenses	5.42	5.46	5.92	5.68	6.36
Transportation costs	2.47	3.29	2.73	2.75	2.99
Netbacks	29.33	22.10	20.64	19.96	21.78
General and administrative	1.39	1.06	1.03	1.80	1.29
Depletion, depreciation and accretion	9.14	9.38	9.26	9.39	8.97
Net earnings	10.45	10.70	5.33	5.50	8.21
Gross Drilling Results					
Natural gas	10	6	19	14	18
Crude oil	7	-	4	2	4
Service	1	-	-	-	-
Dry	6	1	5	2	6
Success Rate (%)	75	86	82	89	79

CORPORATE INFORMATION

DIRECTORS

John M. Stewart ⁽¹⁾
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Progress Energy Ltd.
Vice Chairman
ARC Financial Corporation
Calgary, Alberta

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Frederic C. Coles ⁽³⁾
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Gary E. Perron ⁽¹⁾⁽²⁾
Senior Vice President and
Managing Director
BMO Nesbitt Burns
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Terrance D. Svarich ^{(2) (3)}
President
Devsun Limited
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation
Committee

⁽³⁾ Member of Reserve Committee

Environment, Health and Safety,
Corporate Governance and Nomination
Matters are addressed by the entire
Board of Directors

OFFICERS

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President and
Chief Executive Officer

Steven A. Allaire
Vice President Finance and
Chief Financial Officer and
Corporate Secretary

Michael R. Culbert
Vice President Marketing and
Business Development

Edward J. Kalthoff
Vice President Land

William J. Lewington
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Neil H. Samis
Vice President Production

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