



## Progress Energy Trust Generates Strong First Quarter Cash Flow-Production In Line With Guidance

	Three Months Ended March 31	
	2005	2004
<b>FINANCIAL HIGHLIGHTS</b>		
<b>Income Statement</b> (\$thousands, except per unit amounts)		
Petroleum and natural gas revenue	79,007	30,812
Cash flow from operations	42,511	14,928
Per unit - basic	0.52	0.44
Per unit - diluted	0.52	0.41
Cash distributions declared	28,574	
Per trust unit	0.42	
<b>Payout Ratio</b>		
Excluding exchangeable shares	67%	
Including exchangeable shares	81%	
<b>Balance Sheet</b> (\$thousands)		
Capital Expenditures	34,380	43,702
Total debt	187,312	82,252
<b>OPERATIONAL HIGHLIGHTS</b>		
<b>Daily Production</b>		
Natural gas (mcf/d)	84,523	34,805
Crude oil (bbls/d)	2,550	2,227
Natural gas liquids (bbls/d)	1,598	329
Total daily production (boe/d)	18,235	8,357
<b>Average Realized Prices</b>		
Natural gas - before hedging (\$/mcf)	7.31	6.66
Natural gas - after hedging (\$/mcf)	7.69	6.63
Crude oil - before hedging (\$/bbl)	59.44	44.15
Crude oil - after hedging (\$/bbl)	59.44	43.12
Natural gas liquids (\$/bbl)	47.82	36.33
<b>Wells Drilled, Net</b>	<b>12.5</b>	<b>21.8</b>

Notes: Cash flow from operations is a non-GAAP term, refer to Management's Discussion and Analysis attached.

Total units outstanding include trust units plus exchangeable shares outstanding at period end. The exchangeable shares are converted at the exchange ratio at the end of the period.

Certain comparative period numbers reflect retroactive restatement due to changes in accounting policies.

Progress Energy Trust's ("Progress" or "Trust") first quarter cash flow from operations was \$42.5 million or \$0.52 per unit, diluted. Cash distributions declared totaled \$28.6 million or \$0.42 per trust unit resulting in a payout ratio of 67 percent excluding exchangeable shares or 81 percent including the impact of the exchangeable shares. Exchangeable shares do not receive cash distributions. Production averaged 18,235 barrels of oil equivalent per day, 77 percent natural gas.

"Strong natural gas prices combined with our consistent production profile helped to generate strong cash flows during the first quarter of 2005," said Michael Culbert, President of Progress. "As well, our first quarter drilling program achieved very strong results with an 89 percent success rate on the 12.5 net wells drilled in our key operating regions."

The Trust's average gas price realization in the quarter was \$7.69 per thousand cubic feet (Mcf) after hedging gains and \$7.31 per Mcf before hedging gains, representing a premium of approximately \$0.40 per thousand cubic feet to the average daily AECO price of \$6.89 per Mcf. The premium reflects the higher average heat content of the Trust's gas production.

Operating expenses averaged \$5.69 per barrel of oil equivalent resulting in an operating netback of \$28.78 per barrel of oil equivalent.

Capital investment in the first quarter was \$34.4 million. With total debt-to-cash flow of 1.1 times based on first quarter annualized cash flow, the Trust remains in a very strong financial position.

### **Strong Results Achieved Through the Drill Bit**

Progress continued its measured drilling pace completing 24 wells (12.5 net) in the company's core areas through to the end of the first quarter. Six wells (3.6 net) targeting Halfway sands were drilled in the foothills area of northeastern BC with a 100 percent success rate.

In the Fort St. John plains region, the Trust completed the drilling of seven (2.9 net) tests resulting in a success rate of 77 percent. Of note, in the Osprey area a new Halfway depth well (80 percent WI) tested at rates in excess of 400 barrels per day of light oil. This well will be placed on production early in the second quarter.

In the Deep Basin region, eight wells (5.7 net) targeting Cretaceous and Triassic reservoirs, were drilled. Six new gas discoveries were made but an early spring breakup resulted in only one of these wells being tied in with the balance waiting on drier conditions. In addition one (0.5 net) infill oil well was drilled and placed on production in the first quarter. Also in the first quarter, Progress added to its undeveloped land portfolio with the addition of over 7,500 acres in the heart of the Trust's operating area through a farmin deal with an industry partner and through Crown sales.

Progress participated in the acquisition of over 200 square kilometers of high quality 3-D seismic data in the Town and Gundy areas during the first quarter. Subsurface data obtained in this seismic program will be used to locate exploration and subsequent step-out wells on gas bearing foothills structures for the balance of 2005 and throughout 2006. At the same time the company has been expanding its land inventory in the foothills and will continue to do so with its joint venture partner throughout the year.

### **Q1 2005 Production Remains Consistent with Q4**

Production for the first quarter averaged 18,235 barrels of oil equivalent per day, including 84.5 million cubic feet per day of natural gas and 4,100 barrels of light and medium oil and natural gas liquids. This is consistent with production of approximately 18,368 boe per day in the fourth quarter. The Trust currently has over 1,000 barrels of oil equivalent per day behind pipe comprising seven wells, which are expected to be tied-in during the summer.

During the upcoming second and third quarters of 2005, the Duke-owned McMahon gas processing facility will be down for a period of between 21 to 28 days. Approximately 35 percent of the Trust's gas production is processed through this facility. During this period the Trust will capture the opportunity to complete required maintenance on its own facilities and wells.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results is dated April 22, 2005, and is to be read in conjunction with the accompanying unaudited consolidated interim financial statements and related notes for the period ended March 31, 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 basic and 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, 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. As at April 22, 2005 there were 68.7 million trust units and 12.9 million exchangeable shares outstanding. An assessment of the Trust's unitholder base indicates that approximately 30 percent of the trust units are currently held by non-residents of Canada.

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 three months ended March 31, 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		
	March 31		
	2005	2004	% Change
<b>Daily Production</b>			
Natural gas ( <i>mcf/d</i> )	84,523	34,805	143%
Crude oil ( <i>bbls/d</i> )	2,550	2,227	15%
Natural gas liquids ( <i>bbls/d</i> )	1,598	329	386%
<b>Total daily production (<i>boe/d</i>)</b>	<b>18,235</b>	<b>8,357</b>	<b>118%</b>

For the three months ended March 31, 2005 (the “Quarter”), Progress production averaged 18,235 boe per day consisting of 84,523 mcf per day of natural gas, 2,550 barrels (“bbls”) per day of crude oil and 1,598 bbls per day of natural gas liquids. This compares favorably to 8,357 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 77 percent to natural gas, 14 percent to crude oil and 9 percent to natural gas liquids.

Natural gas production increased 143 percent to 84,523 mcf per day during the Quarter compared to 34,805 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 62 percent to 4,148 bbls per day from 2,556 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.

During the Quarter, Progress drilled 24 gross wells (12.5 net) with an 89 percent success rate. The Trust currently has approximately 1,000 barrels of oil equivalent per day behind pipe, comprising seven wells, which are expected to be tied-in during the summer.

The Duke-owned McMahon gas processing facility in northeast British Columbia is scheduled to be down for a period of between 21 to 28 days straddling the second and third quarters of 2005. Approximately 35 percent of the Trust’s gas is processed through this facility.

## Pricing and Risk Management

Natural gas prices started the Quarter lower than anticipated but steadily increased to close at \$7.45 Cdn/mcf for AECO daily and \$6.24 US/Mmbtu for NYMEX. North American natural gas prices were affected by generally mild weather in the west and central regions of the continent but increased through the Quarter as rising crude oil prices provided momentum as fuel switching created additional demand for natural gas.

Crude oil prices closed the Quarter with record highs as West Texas Intermediate (“WTI”) hit \$54.63 US/bbl and Edmonton mixed sweet topped \$67.68 Cdn/bbl. Global demand for gasoline and the general concern that crude and refined product inventory volumes were insufficient to meet summer needs pushed demand for crude oil ever

higher. The surprisingly high demand for Canadian light oil was particularly evident in February and March as it sold for as much as \$1.02 US/bbl above WTI.

#### Commodity Prices

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

	Three Months Ended March 31	
	2005	2004
<b>Average Benchmark Prices</b>		
AECO (daily) natural gas (\$/mcf)	6.89	6.41
WTI crude oil (US\$/bbl)	49.84	35.15
Edmonton par price (Cdn\$/bbl)	61.49	45.64
Exchange rate (US\$/Cdn\$)	0.8150	0.7588
<b>Average Realized Prices</b>		
Natural gas - before hedging (\$/mcf)	7.31	6.66
Hedge settlements (\$/mcf)	0.39	-
Amortization of hedge premiums (\$/mcf)	(0.03)	(0.09)
Amortization of commodity sales contract (\$/mcf) <sup>1</sup>	0.02	0.06
Natural gas - after hedging (\$/mcf)	7.69	6.63
Crude oil - before hedging (\$/bbl)	59.44	44.15
Hedge settlements (\$/bbl)	-	(1.03)
Crude oil - after hedging (\$/bbl)	59.44	43.12
Natural gas liquids (\$/bbl)	47.82	36.33

<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 derivative financial instruments for the purpose of protecting its cash flow from the volatility of natural gas commodity prices. For the Quarter, the Trust's natural gas price risk management program had a net gain of \$2.8 million (2004 - \$0.3 million net loss, consisting of hedging charges of \$0.2 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.

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 10 in the unaudited consolidated financial statements attached. The Trust currently has natural gas financial 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	26.7	22
First quarter of 2006	20.0	20

### Revenue

For the Quarter, petroleum and natural gas revenue increased 156 percent to \$79.0 million from \$30.8 million for the same period in 2004 due to higher production volumes as a result of the Cequel acquisition, 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, and increased commodity prices, partially offset by the transfer of properties to ProEx. Production revenue before hedging for the Quarter consisted of \$55.6 million from natural gas sales, \$13.6 million from crude oil sales and \$6.9 million from the sale of natural gas liquids.

For the Quarter petroleum and natural gas sales revenue was made up of the following balances compared to the same period in 2004:

(\$ thousands)	Three Months Ended March 31	
	2005	2004
Natural gas sales	55,641	21,091
Crude oil sales	13,639	8,949
Natural gas liquids sales	6,879	1,089
Hedge settlements	2,930	(209)
Amortization of hedge premiums	(250)	(306)
Amortization of a commodity sales contract <sup>1</sup>	168	198
Petroleum and natural gas revenue	79,007	30,812

<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. For the Quarter, royalties increased 171 percent to \$19.3 million from \$7.1 million for the same period in 2004 due to increased revenue. The Trust's average royalty rate for the Quarter was 25.4 percent (after removing the effects of hedging charges) compared to 22.9 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 93 percent to \$9.3 million during the Quarter compared to \$4.8 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 11 percent to \$5.69 from \$6.36 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 between \$5.25 and \$5.50 per boe.

## Transportation Expenses

Transportation expenses increased 36 percent to \$3.1 million for the Quarter compared to \$2.3 million for the same period in 2004. On a boe basis, transportation expenses during the Quarter decreased 37 percent to \$1.89 compared to \$2.99 for the same period in 2004. The decrease for the Quarter 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 71 percent of total production during the three months ended March 31, 2004 to 34 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 March 31	
	2005	2004
<b>Natural Gas Properties (\$/mcf)</b>		
Sales price - before hedging	7.46	6.63
Hedging settlements	0.36	-
Amortization of hedge premiums	(0.03)	(0.09)
Amortization of commodity sales contract	0.02	0.06
Royalties	(2.19)	(1.59)
Operating expenses	(0.79)	(0.88)
Transportation expenses	(0.32)	(0.54)
Operating netback – natural gas properties	4.51	3.59
<b>Oil Properties (\$/bbl)</b>		
Sales Price - before hedging	54.88	44.12
Hedging settlements	-	(1.04)
Royalties	(4.70)	(9.04)
Operating expenses	(10.53)	(9.41)
Transportation expenses	(1.86)	(2.27)
Operating netback – oil properties	37.79	22.36

## General and Administrative Expenses

For the Quarter, general and administrative expenses net of overhead recoveries, (“G&A”) increased 158 percent to \$2.5 million (\$1.54 per boe) compared to \$1.0 million (\$1.29 per boe) for the same period in 2004. The increase in the 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.

For the Quarter, unit based compensation expense relating to the performance unit incentive plan was \$0.7 million (\$0.41 per boe) which include a non-cash charge of \$0.5 million (\$0.31 per boe). 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 8 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.

The Trust capitalized approximately \$0.4 million of G&A during the Quarter. The majority of these costs represent geological and geophysical salaries.

Management anticipates G&A expense to average approximately \$1.25 per boe for the remainder of 2005.

## Interest and Financing Expenses

Interest and financing expenses during the Quarter increased 315 percent to \$2.1 million compared to \$0.5 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 incurred 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	
	2005	2004
Interest on bank debt	757	501
Interest on Debentures	1,054	-
Amortization of Debenture issue costs	130	-
Accretion on debt portion of Debentures <sup>1</sup>	139	-
Total interest and financing expense	2,080	501

<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 226 percent to \$22.3 million from \$6.8 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. 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. DD&A per boe for the three months ended March 31, 2005 was \$13.56 compared to \$8.97 in 2004.

With the reorganization of Progress, management expects depletion, depreciation and accretion per boe for the remainder of 2005 to be approximately \$13.00 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. The increase is primarily attributable to the Cequel acquisition. The provision for future income taxes for the Quarter decreased to a recovery of \$2.2 million from an expense of \$1.8 million in same period 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.

### Net Earnings and Cash Flow

Net earnings increased 252 percent to \$22.0 million for the Quarter compared to \$6.2 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. Basic net earnings for the Quarter were \$0.27 per unit compared to \$0.19 per unit during the same period in 2004. Similarly, diluted net earnings for the Quarter were \$0.27 per unit compared to \$0.17 per unit during the same period in 2004.

Cash flow increased 185 percent to \$42.5 million for the Quarter compared to \$14.9 million during the same period in 2004 due to higher production and commodity prices. Basic cash flow for the Quarter was \$0.52 per unit compared to \$0.44 per unit during the same period in 2004. Diluted cash flow for the Quarter was \$0.52 per unit compared to \$0.41 per unit during the same period in 2004.

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

(\$ thousands, except per unit amounts)	Three Months Ended							
	Mar 31 2005	Dec 31 2004	Sept 30 2004	Jun 30 2004	Mar 31 2004	Dec 31 2003	Sept 30 2003	Jun 30 2003
Petroleum and natural gas revenue	79,007	76,767	68,299	38,811	30,812	28,370	24,939	24,784
Cash flow	42,511	41,344	36,355	17,833	14,928	13,390	12,317	12,502
Per unit basic	0.52	0.50	0.45	0.52	0.44	0.41	0.39	0.40
Per unit diluted	0.52	0.50	0.45	0.49	0.41	0.39	0.37	0.37
Net earnings	21,993	22,717	19,149	4,464	6,247	4,293	3,647	6,835
Per unit basic	0.27	0.28	0.24	0.13	0.19	0.13	0.12	0.22
Per unit diluted	0.27	0.28	0.24	0.12	0.17	0.12	0.11	0.20

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

<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. Third and fourth quarter 2004 and first quarter 2005 petroleum and natural gas revenue and cash flow increased primarily due to the Cequel acquisition and successful drilling at the shallow foothills, northeast British Columbia core area, partially offset by the transfer of assets to ProEx as part of the Arrangement.

## Capital Expenditures

During the Quarter, the Trust invested approximately \$34.4 million in net capital expenditures compared to \$43.7 million in the same period in 2004.

<i>(\$ thousands)</i>	Three Months Ended	
	2005	2004
Land acquisitions and retention	1,727	4,248
Geological and geophysical	1,223	4,862
Drilling and completions	20,828	23,205
Equipping and facilities	9,246	10,683
Net property acquisitions (dispositions)	964	383
Corporate assets	392	321
Total net capital expenditures	34,380	43,702

During the Quarter, Progress drilled 24 gross wells (12.5 net) with an 89 percent success rate. In northeast British Columbia 6 gross wells (3.6 net) were drilled in the shallow foothills and 7 gross wells (2.9 net) in the Fort St. John plains region while 8 gross wells (5.7 net) were drilled in the Gold Creek area of northwest 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 \$70 to \$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>	March 31, 2005	December 31, 2004
Working capital deficiency	40,841	37,821
Bank debt	55,695	133,722
Convertible Debentures	90,776	-
Total debt	187,312	171,543

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 March 31, 2005 the Trust had \$55.7 million outstanding on its credit facilities, \$90.8 million for the debt portion of the Debentures and a working capital deficiency of \$40.8 million, totaling \$187.3 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 31, 2005, 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 \$55.7 million as at March 31, 2005. This decrease is primarily the result of the issuance of Debentures during the Quarter. The working capital deficiency of \$40.8 million at March 31, 2005 is slightly higher than the December 31, 2004 deficiency of \$37.8 million.

The Trust's investing activities in the Quarter 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 (77 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.

	Three Months Ended March 31 2005
<i>(\$ thousands, except per unit amounts)</i>	
Cash flow from operations before changes in non-cash working capital	42,511
Cash withheld to fund capital expenditures	(13,937)
Cash distributions declared	28,574
Accumulated cash distributions, beginning of period	55,705
Accumulated cash distributions, end of period	84,279
Cash distributions per unit <sup>1</sup>	0.42
Accumulated cash distributions per unit, beginning of period	0.84
Accumulated cash distributions per unit, end of period	1.26

<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

Progress will continue to pursue a disciplined approach to long-term sustainability on a per unit basis. Our technical approach and cost control will be primary contributors to sustained value creation for unitholders. Internally generated opportunities will be drilled at a more modest pace than when we were an aggressive growth company. Our inventory of drilling locations currently supports approximately two to three years of activity for Progress while our nearly 600,000 net acres of undeveloped land provides the opportunity for our technical team to create incremental value.

In creating our new Trust, we ensured that we would have access to strong technical and financial people by having all employees invest in Progress. This creates strong alignment with our unitholders and ensures that we have the professional staff to execute our business plan. Employees, management and directors hold a 13 percent direct ownership interest in our Trust.

On behalf of the Board of Directors,

(Signed) "Michael R. Culbert"

Michael R. Culbert  
President  
April 22, 2005

(Signed) "David D. Johnson"

David D. Johnson  
Executive Chairman  
April 22, 2005

# PROGRESS ENERGY TRUST

## CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	March 31, 2005	December 31, 2004
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>ASSETS</b>		
Current		
Cash and short-term investments	-	-
Accounts receivable	26,322	30,863
Prepaid expenses and deposits	3,775	4,370
	30,097	35,233
Property, plant and equipment <i>(Note 4)</i>	646,260	633,615
Goodwill <i>(Note 2)</i>	414,655	414,655
	1,091,012	1,083,503
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	54,774	56,979
Cash distributions payable	9,612	9,366
Current income taxes payable	6,552	6,709
	70,938	73,054
Bank debt <i>(Note 5)</i>	55,695	133,722
Convertible debentures <i>(Note 6)</i>	90,776	-
Commodity sales contract <i>(Note 10)</i>	1,926	2,094
Asset retirement obligations <i>(Note 7)</i>	16,388	16,065
Future income taxes	106,962	109,116
	342,685	334,051
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital <i>(Note 8)</i>	629,528	614,579
Exchangeable shares <i>(Note 8)</i>	118,277	133,226
Convertible debentures <i>(Note 6)</i>	4,944	-
Contributed surplus <i>(Note 8)</i>	683	171
Accumulated earnings	79,174	57,181
Accumulated cash distributions	(84,279)	(55,705)
	748,327	749,452
	1,091,012	1,083,503

*See accompanying notes to the consolidated financial statements*

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

	Three Months Ended March 31	
<i>(\$ thousands, except per unit amounts)</i>	2005	2004
<b>REVENUE</b>		
Petroleum and natural gas	79,007	30,812
Royalties	(19,337)	(7,143)
	59,670	23,669
<b>EXPENSES</b>		
Operating	9,330	4,840
Transportation	3,095	2,271
General and administrative	2,522	978
Interest and financing	2,080	501
Depletion, depreciation and accretion	22,261	6,823
	39,288	15,413
Earnings before taxes	20,382	8,256
<b>TAXES</b>		
Capital taxes	543	181
Future income taxes	(2,154)	1,828
	(1,611)	2,009
<b>NET EARNINGS</b>	21,993	6,247
Accumulated earnings, beginning of period	57,181	34,780
Accumulated earnings, end of period	79,174	41,027
<b>NET EARNINGS PER UNIT (Note 8)</b>		
Basic	\$0.27	\$0.19
Diluted	\$0.27	\$0.17

*See accompanying notes to the consolidated financial statements*

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

	Three Months Ended March 31	
<i>(\$ thousands)</i>	2005	2004
<b>Operating Activities</b>		
Net earnings	21,993	6,247
Depletion, depreciation and accretion	22,261	6,823
Convertible debentures accretion <i>(Note 6)</i>	139	-
Amortization of convertible debentures issue costs <i>(Note 6)</i>	130	-
Amortization of commodity sales contract	(168)	(198)
Unit based compensation expense <i>(Note 8)</i>	512	243
Asset retirement expenditures <i>(Note 7)</i>	(202)	(15)
Future income taxes	(2,154)	1,828
<b>Cash flow from operations before changes in non-cash working capital</b>	<b>42,511</b>	<b>14,928</b>
Changes in non-cash working capital <i>(Note 9)</i>	1,716	1,506
	<b>44,227</b>	<b>16,434</b>
<b>Financing Activities</b>		
Increase (decrease) in bank debt	(78,026)	16,932
Issue of convertible debentures <i>(Note 6)</i>	100,000	-
Convertible debentures issue costs <i>(Note 6)</i>	(4,549)	-
Cash distributions	(28,328)	-
Issue of units	-	1,955
Changes in non-cash working capital <i>(Note 9)</i>	-	(276)
	<b>(10,903)</b>	<b>18,611</b>
<b>Investing Activities</b>		
Capital expenditures	(34,380)	(43,702)
Change in non-cash working capital <i>(Note 9)</i>	1,056	8,657
	<b>(33,324)</b>	<b>(35,045)</b>
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 three months ended March 31, 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 months ended March 31, 2005 was \$0.6 million (2004 – nil).

As at March 31, 2005, accounts payable included \$6.7 million (2004 – nil) payable to ProEx which includes standard joint venture amounts including revenue. These amounts were paid subsequent to March 31, 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. 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. 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.

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

## 3. 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)
Total assets transferred	27,332
Bank indebtedness assumed	(10,000)
Net assets transferred and reduction in accumulated earnings	17,332
Plan of arrangement costs, net of income tax benefit of \$7,101	12,844
Total Plan of Arrangement and reduction in accumulated earnings	30,176

In accordance with the Arrangement, all outstanding stock options of Progress Energy Ltd. vested, 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.

#### 4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2005	December 31, 2004
Property, plant and equipment	787,426	752,846
Accumulated depletion and depreciation	(141,166)	(119,231)
Property, plant and equipment	646,260	633,615

The calculation of 2005 depletion and depreciation expense included an estimated \$10.4 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 months ended March 31, 2005 was \$21.9 million (2004 - \$6.6 million).

Included in the Trust's property, plant and equipment balance is \$9.6 million, net of accumulated depletion, related to asset retirement obligations (\$14.6 million before accumulated depletion) (Refer to note 7).

The Trust capitalized approximately \$0.4 million of geological and geophysical expenses associated with the exploration and development of capital assets during the three months ended March 31, 2005 (\$0.4 million in 2004)

#### 5. BANK DEBT

	March 31, 2005	December 31, 2004
Direct advances	4,695	1,222
Banker's acceptances	51,000	132,500
Total bank debt	55,695	133,722

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 31, 2005, and such initial term out date may be extended for further 364 day periods at the request of the Trust, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. Various borrowing options are available under the facilities including prime rate based advances and banker's acceptance loans. Average cost of borrowing under these facilities for the three months ended March 31, 2005 was 3.9 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.

## 6. 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:

	Three Months Ended March 31, 2005
Debt portion on February 2, 2005	90,507
Accretion	139
Amortization of issue costs	130
Debt portion, end of period	90,776
Equity portion	4,944
Total debentures, end of period	95,720

Total interest charged to earnings for the three months ended March 31, 2005 was \$1.3 million which includes \$0.1 million of debenture accretion and \$0.1 million of amortized issue costs.

## 7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations were estimated based on the Trust's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$41.7 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:

	Three Months Ended March 31	
	2005	2004
Balance, beginning of period	16,065	11,778
Liabilities incurred	199	490
Liabilities settled	(202)	(15)
Accretion expense	326	232
Balance, end of period	16,388	12,485

## 8. UNITHOLDERS' CAPITAL AND EXCHANGEABLE SHARES

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.

### (a) Trust Units

	Three months ended March 31			
	2005		2004	
	Number	Amount	Number	Amount
<b>Trust Units</b>				
Balance, beginning of period	66,898,498	614,579	-	-
Exchangeable shares converted	1,747,755	14,949	-	-
Balance, end of period	68,646,253	629,528	-	-

### 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.

## (b) Exchangeable Shares

	Three months ended March 31			
	2005		2004	
	Number	Amount	Number	Amount
<b>Exchangeable Shares</b>				
Balance, beginning of period	14,533,506	133,226	-	-
Exchanged for trust units	(1,630,768)	(14,949)	-	-
Balance, end of period	12,902,738	118,277	-	-

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 at the end of each month. 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 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.

### Net Earnings Per Unit

The following table summarizes the trust units and issuable exchangeable shares used in calculating net earnings per unit:

Weighted average trust units and issuable exchangeable shares	Three Months Ended March 31	
	2005	2004
Basic	82,425,455	33,761,310
Performance units	59,778	-
Stock options	-	1,366,847
Warrants	-	1,007,623
Diluted	82,485,233	36,135,780

Units potentially issuable on the conversion of the Debentures are anti-dilutive and are not included in the calculation of diluted weighted average units for the three months ended March 31, 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 months ended March 31, 2005 \$0.5 million (2004 – nil) was charged to general and administrative expenses. The distributions earned by the PUIP’s for the three months ended March 31, 2005 of \$0.2 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 March 31	
	2005	2004
Balance, beginning of period	171	246
Unit based compensation expense	512	243
Options exercised	-	(10)
Balance, end of period	683	479

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in non-cash working capital

	Three Months Ended March 31	
	2005	2004
Accounts receivable	4,541	(3,908)
Prepaid expenses and deposits	595	464
Accounts payables	(2,207)	13,331
Current income taxes payable	(157)	-
Change in non-cash working capital	2,772	9,887
Relating to:		
Financing activities	-	(276)
Investing activities	1,056	8,657
Operating activities	1,716	1,506

## Interest and taxes paid

	Three Months Ended March 31	
	2005	2004
Interest paid	560	503
Income and other taxes paid	371	158

## 10. 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 commodity prices. For the three months ended March 31, 2005, the Trust's natural gas price risk management program had a net gain of \$2.8 million (2004 - \$0.3 million net loss, consisting a hedging charges of \$0.2 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.

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>	10,000 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\$7.55 – Cdn\$9.85	n/a	Nov 01/05 – Mar 31/06
Costless collar <sup>1,2</sup>	5,000 gj/d	AECO	Cdn\$7.75 – Cdn\$9.50	n/a	Nov 01/05 – Mar 31/06

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

<sup>2</sup> Transaction entered into subsequent to March 31, 2005

The estimated fair value of the natural gas collars that qualify for hedge accounting was a loss of \$5.2 million as at March 31, 2005 and represents the amount the Trust would pay to terminate the contracts at March 31, 2005. These instruments have no carrying value recorded in the financial statements.

### Commodity Sales Contract

The following physical gas sales contract was outstanding at March 31, 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 March 31, 2005 the unamortized remaining liability was \$1.9 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
<b>Income Statement</b>					
Petroleum and natural gas revenue	30,812	38,811	68,299	76,767	79,007
Cash flow <sup>1</sup>	14,928	17,833	36,355	41,344	42,511
Per unit - basic	0.44	0.52	0.45	0.50	0.52
Per unit - diluted	0.41	0.49	0.45	0.50	0.52
Cash distributions declared			27,670	28,035	28,574
Per trust unit			0.42	0.42	0.42
Net earnings	6,247	4,464	19,149	22,717	21,993
Per unit - basic	0.19	0.13	0.24	0.28	0.27
Per unit - diluted	0.17	0.12	0.24	0.28	0.27
<b>Payout Ratio</b>					
Excluding exchangeable shares			76%	68%	67%
Including exchangeable shares			94%	83%	81%
<b>Balance Sheet</b>					
Capital Expenditures	43,702	16,615	12,112	33,993	34,380
Total debt	82,252	106,061	151,580	171,543	187,312
Unitholders' equity	140,224	134,816	754,600	749,452	748,327
<b>Trust Units (thousands except where otherwise stated)</b>					
Units outstanding, end of period	33,939	35,238	66,164	66,898	68,646
Units issuable for exchangeable shares			15,575	15,291	13,992
Total units outstanding and issuable for exchangeable shares, end of period	33,761	34,156	81,739	82,189	82,638
Weighted average units – diluted <sup>2</sup>			81,016	81,979	82,485
Exchange ratio, end of period			1.02188	1.05215	1.08438
<b>Trust Unit Trading Statistics (\$)</b>					
High			15.09	15.81	14.50
Low			12.12	12.95	12.52
Closing			14.95	13.52	13.38
Unit volume traded (thousands)			46,567	18,774	17,788
<b>Exchangeable Shares Trading Statistics (\$)</b>					
High			15.25	16.00	15.85
Low			13.00	13.55	13.96
Closing			15.25	14.11	14.60
Share volume traded (thousands)			272	95	1,460

<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
<b>Daily Production</b>					
Natural gas (mcf/d)	34,805	44,809	81,783	86,998	84,523
Crude oil (bbls/d)	2,227	2,160	2,475	2,475	2,550
Natural gas liquids (bbls/d)	329	325	1,197	1,394	1,598
Total daily production (boe/d)	8,357	9,953	17,302	18,368	18,235
<b>Average Realized Prices</b>					
Natural gas - before hedging (\$/mcf)	6.66	7.17	6.94	7.32	7.31
Natural gas - after hedging (\$/mcf)	6.63	7.16	6.99	7.45	7.69
Crude oil - before hedging (\$/bbl)	44.15	48.75	53.35	55.69	59.44
Crude oil - after hedging (\$/bbl)	43.12	42.47	47.31	48.21	59.44
Natural gas liquids (\$/bbl)	36.33	43.40	45.09	48.24	47.82
<b>Highlights (\$/boe)</b>					
Weighted average sales price	40.52	42.85	42.91	45.42	48.14
Royalties	9.39	10.99	10.52	11.58	11.78
Operating expenses	6.36	6.15	5.81	5.55	5.69
Transportation expenses	2.99	2.98	1.98	1.96	1.89
Operating Netbacks	21.78	22.73	24.60	26.33	28.78
General and administrative expense	1.29	0.69	1.22	1.24	1.54
Interest and financing expenses	0.66	0.69	0.70	0.69	1.26
Depletion, depreciation and accretion	8.97	9.47	12.97	13.34	13.56
Plan of arrangement expenses	-	3.69	-	-	-
Net earnings before taxes	10.86	8.19	9.71	11.06	12.42
Capital taxes	0.24	0.20	0.35	0.31	0.33
Future income taxes	2.41	3.06	(2.68)	(2.69)	(1.31)
Net Earnings	8.21	4.93	12.04	13.44	13.40
<b>Drilling Results</b>					
Gross	28	5	10	21	24
Net – natural gas	14.9	2.5	6.2	6.9	9.9
Net – crude oil	2.4	2.0	0.0	2.6	1.2
Success Rate (percent)	79	83	100	100	89

## **CORPORATE INFORMATION**

### **DIRECTORS**

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

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

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

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

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

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

Gary E. Perron <sup>(1)(3)</sup>  
Senior Vice President and  
Managing Director  
BMO Nesbitt Burns  
Calgary, Alberta

- <sup>(1)</sup> Member of Audit Committee
- <sup>(2)</sup> Member of Reserve Committee
- <sup>(3)</sup> Member of Compensation Committee
- <sup>(4)</sup> Member of Technical Services Committee

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

### **OFFICERS**

David D. Johnson  
Executive Chairman

Michael R. Culbert  
President

Steven A. Allaire  
Senior Vice President

Greg W. Kist  
Vice President Investor Relations

Art A. MacNichol  
Vice President Finance &  
Chief Financial Officer

Neil H. Samis  
Vice President Production

Daniel C. Topolinsky  
Vice President Exploration

Gary R. Bugeaud  
Secretary

### **CORPORATE OFFICE**

1400, 440 – 2nd Avenue S.W.  
Calgary, Alberta T2P 5E9  
Telephone: (403) 216-2510  
Fax: (403) 216-2514

### **TRUSTEE AND TRANSFER AGENT**

Computershare Trust Company  
of Canada  
Calgary, Alberta

### **STOCK EXCHANGE**

The Toronto Stock Exchange  
trading symbols:  
Trust Units - PGX.UN  
Exchangeable Shares – PGE  
Convertible Debentures – PGX.DB

### **SOLICITOR**

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### **AUDITOR**

KPMG LLP  
Calgary, Alberta

### **CONSULTING ENGINEERS**

Gilbert Laustsen Jung  
Associates Ltd.  
Calgary, Alberta

### **INVESTOR RELATIONS**

Greg Kist  
Vice President, Investor Relations  
403-539-1809  
[gkist@progressenergy.com](mailto:gkist@progressenergy.com)  
or toll free at 1-866-216-2150  
(in Canada only)  
[ir@progressenergy.com](mailto:ir@progressenergy.com)

Visit our website at  
[www.progressenergy.com](http://www.progressenergy.com)