

Q3

PROGRESS ENERGY TRUST

Progress 

2004 QUARTERLY REPORT TO THE UNITHOLDERS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

PROGRESS ENERGY TRUST BUILDING THROUGH THE DRILL BIT

CALGARY, Alberta (October 26, 2004) (TSX-PGX.UN) - - The third quarter of 2004 marks the inaugural quarter for Progress Energy Trust ("Progress" or the "Trust"). On July 2, 2004, the amalgamation of Progress Energy Ltd. and Cequel Energy Inc. was completed through a Plan of Arrangement resulting in a technically focused, opportunity rich energy trust of substantial size.

"We set out to create a technically focused, sustainable trust – one that can capitalize on existing opportunities while generating new concepts and ideas on its undeveloped land base," said David Johnson, Executive Chairman of Progress Energy Trust.

Third quarter cash flow from operations was \$36.4 million or \$0.45 per trust unit. Cash distributions declared totaled \$27.7 million or \$0.42 per Trust Unit. The payout ratio averaged 76 percent excluding exchangeable shares or 94 percent including the impact of the exchangeable shares. Exchangeable shares do not receive cash distributions.

Capital investment in the third quarter was \$12.1 million. With total debt-to-cash flow of 1.0 times based on third quarter annualized cash flow, the Trust remains in a very strong financial position.

OPERATIONAL

Ten successful wells drilled in the quarter

During the third quarter Progress drilled 10 gross wells (6.2 net) with a 100 percent success rate. Four 100-percent working interest wells were drilled in the shallow foothills of northeast British Columbia ("B.C."), three at Town and one at Blueberry. Four 20 percent working interest wells were drilled in the Gundy field, a new northeast B.C. foothills play south of Town. The success of the drilling program in the shallow foothills of northeast B.C. continues to support the long-term development potential of this tight, multi-zone gas region. In the largest producing region, Gold Creek in northwest Alberta, the Trust drilled a 100 percent working interest well and also drilled a 40 percent working interest well with its joint venture partner.

The full benefits of the third quarter drilling program will be realized in the fourth quarter as only two of the successful discoveries have been tied-in to date at a combined rate of approximately two million cubic feet per day with the balance of expected production currently behind pipe. Operations were suspended over the second half of the quarter because of extremely wet field conditions which limited drilling, completions and tie-in activities. With the onset of dryer conditions, the Trust currently has three drilling and three service rigs working in the field.

Production back on track after extended plant maintenance

Production for the fourth quarter is expected to average 19,000 barrels of oil equivalent per day. Over 1,000 barrels of oil equivalent per day is awaiting completion or tie-in. Extended scheduled plant maintenance and limited well access and tie-ins resulted in average third quarter production of 17,302 barrels of oil equivalent per day. Natural gas production averaged 81.8 million cubic feet per day and crude oil and natural gas liquids production averaged 3,672 barrels per day. Extended plant maintenance at gas plants including Gold Creek impacted quarterly production by approximately 1,500 barrels of oil equivalent per day while persistent wet weather affected field access and facility on-stream efficiency resulting in approximately 200 barrels of oil equivalent per day of production outages.

Progress is listed on the Toronto Stock Exchange, symbol PGX.UN

For more information contact: Michael Culbert, President or Greg Kist, Vice President, Investor Relations

Tel: (403) 216-2510 or Fax: (403) 216-2514 www.progressenergy.com

The Trust's average gas price realization before hedging in the quarter was \$6.94 per thousand cubic feet, (\$6.99 per mcf after hedging) representing a premium of approximately \$0.28 per thousand cubic feet to the 30-day average AECO price of \$6.66 per thousand cubic feet. The premium reflects the higher average heat content of the Trust's gas production.

Operating costs averaged \$5.81 per barrel of oil equivalent which includes an impact of approximately \$0.50 per boe due to extended plant maintenance experienced at Gold Creek and other gas plants during the third quarter. Operating costs are expected to average \$5.00 to \$5.50 per barrel of oil equivalent going forward.

OUTLOOK

Natural Gas Outlook Remains Strong

The outlook for the energy sector remains very strong. For North American natural gas, record levels of drilling activity have had minimal impact on supply in the face of high decline rates. Although new sources of supply have been proposed, such as liquefied natural gas and natural gas from the Mackenzie Delta and Alaska, these projects require substantial regulatory and facilities construction lead times before incremental production reaches the market. We continue to hedge a portion of our natural gas production to deliver strong and consistent cash flows. For the upcoming winter season we have hedged 45,000 gigajoules per day using a series of costless collars and puts with an average floor price of \$8.20 per thousand cubic feet and an average ceiling of \$11.30 per thousand cubic feet, adjusted for Progress' heat content..

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 three years of activity for Progress while our 600,000 net acres of undeveloped land provides the opportunity for our technical team to create incremental value.

Acquisitions are less likely to play a major role in the maintenance or growth of Progress' asset base. Competition to acquire assets in Western Canada remains very strong and has driven acquisition metrics to new highs. Internal opportunities combined with our joint venture relationships with two active junior exploration companies will be the focus.

Our plans for the fourth quarter are to drill 15-18 gross wells with 12-15 wells focused in the foothills and plains regions of northeast B.C. and three wells planned in the Gold Creek area of northwest Alberta.

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 a strong alignment with our unitholders and ensures that we have the professional staff to execute our business plan as described. Employees, management and directors today hold 13% ownership in our company.

Forward Looking Statements – Certain information regarding Progress set forth in this document, including management's assessment of Progress'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 Progress'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 events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Progress will derive therefrom.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial results is dated October 26, 2004, and is to be read in conjunction with the accompanying unaudited consolidated interim financial statements for the period ended September 30, 2004 and the audited consolidated financial statements and management discussion and analysis ("MD&A") of Progress Energy Ltd. for the year ended December 31, 2003. 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 it 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. 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 the MD&A, 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

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 the 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.

In conjunction with the Arrangement, the Trust entered into a Technical Services Agreement with ProEx where the Trust shares 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 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 with ProEx that specifies how each company will govern the management of the joint lands in specifically identified areas of interest. The Protocol Arrangement identifies methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. 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.

The conversion of Progress Energy Ltd. to a Trust has been accounted for as a continuity of interest. Accordingly, the consolidated financial statements for 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 nine months ended September 30, 2004 reflect the results of operations and cash flows of Progress Energy Ltd. and its subsidiaries for the period January 1 to July 1, 2004 and the results of operations and cash flows of the Trust and its subsidiaries for the period July 2 to September 30, 2004. The comparative figures are the results of Progress Energy Ltd. and its subsidiaries. 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 the corporation 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. Units of Progress trade on the Toronto Exchange (“TSX”) under the symbol PGX.UN. Exchangeable shares of Progress trade on the TSX under the symbol PGE.

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 September 30			Nine Months Ended September 30		
	2004	2003	% Change	2004	2003	% Change
Daily Production						
Natural gas (<i>mcf/d</i>)	81,783	28,736	185 %	53,901	27,487	96 %
Crude oil (<i>bbls/d</i>)	2,475	2,358	5 %	2,288	2,238	2 %
Natural gas liquids (<i>bbls/d</i>)	1,197	289	314 %	619	295	109 %
Total daily production (<i>boe/d</i>)	17,302	7,436	133 %	11,891	7,114	67 %

For the three months ended September 30, 2004 (the “Quarter”), Progress production averaged 17,302 boe per day consisting of 81,783 mcf per day of natural gas, 2,475 barrels (“bbls”) per day of crude oil and 1,197 bbls per day of natural gas liquids. This compares favorably to 7,436 boe per day for the same period in 2003 primarily due to the acquisition of Cequel, partially offset by the transfer of assets to ProEx (refer to Plan of Arrangement). The Trust’s production portfolio for the Quarter was weighted 79 percent to natural gas, 14 percent to crude oil and 7 percent to natural gas liquids.

Natural gas production increased 185 percent to 81,783 mcf per day during the Quarter compared to 28,736 mcf per day for the same period in 2003. The increase in natural gas production is mainly due to the acquisition of Cequel, partially offset by the transfer of assets to ProEx and successful drilling in the foothills and Fort St. John plains areas of British Columbia and Unity, Saskatchewan during 2003 and the first quarter of 2004. Crude oil and natural gas liquids production for the Quarter increased 39 percent to 3,672 bbls per day from 2,647 bbls per day for the same period in 2003. The increase in crude oil and natural gas liquids production is mainly due the acquisition of Cequel, partially offset by the transfer of assets to ProEx.

Production for the Quarter was negatively impacted by scheduled plant maintenance at McMahon, Gold Creek and Thorsby and in addition to very wet field conditions in northwest Alberta and northeast British Columbia in August and September. These annual plant turnarounds reduced production for the Quarter by approximately 1,500 boe per day while persistent wet weather affected field access and facility on-stream efficiency, resulting in approximately 200 boe per day of production outages. During the Quarter, Progress drilled 10 gross wells (6.2 net) with a 100 percent success rate. The full benefits of the third quarter drilling program will be realized in the fourth quarter as only two of the successful discoveries have been tied-in to-date at a combined rate of approximately two million cubic feet per day with the balance of expected production currently behind pipe.

Year-to-date 2004 production was 11,891 boe per day consisting of 53,901 mcf per day of natural gas, 2,288 bbls per day of crude oil and 619 bbls per day of natural gas liquids. This compares favorably to 7,114 boe per day for the same period in 2003 due to the Cequel acquisition, partially offset by the transfer of assets to ProEx. The Trust’s production portfolio for the nine months ended September 30, 2004 was weighted 76 percent to natural gas, 19 percent to crude oil and 5 percent to natural gas liquids.

Management anticipates the Trust’s production for the fourth quarter to average approximately 19,000 boe per day.

Commodity Markets and Prices

Natural gas prices for the Quarter came under downward pressure as storage levels exceeded the five year average and mild fall weather persisted. Supply reductions from the hurricanes in the Gulf of Mexico and rising crude oil prices spurred prices upward late in the Quarter. For the fourth quarter of 2004, the NYMEX forward market is currently trading at over US\$7.00 per mcf. The forward market Alberta AECO price for the fourth quarter of 2004, under some pressure from a stronger Canadian dollar, has increased as well, currently at approximately \$8.00 per mcf.

Crude oil prices have set record highs with West Texas Intermediate (“WTI”) prices closing above US\$50.00 per barrel for the first time. Political instability and low US inventory levels continue to be the main issues driving

oil prices higher. OPEC has agreed to increase production to help ease prices but markets remain very volatile. Currently, the WTI forward strip price for the fourth quarter of 2004 is approximately US\$54.00 per barrel.

Commodity Prices

For the Quarter and nine months ended September 30, 2004, Progress realized the following commodity prices compared to the same periods in 2003:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Average Benchmark Prices				
AECO (30 day) natural gas (\$/mcf)	6.66	6.29	6.69	7.07
WTI crude oil (US\$/bbl)	43.88	30.20	39.11	30.99
Edmonton par price (Cdn\$/bbl)	56.15	40.95	50.81	44.36
Exchange rate – Cdn\$/US\$	1.3072	1.3801	1.3282	1.4294
Average Realized Prices				
Natural gas - before hedging (\$/mcf)	6.94	6.03	6.96	6.97
Hedging (\$/mcf)	0.20	0.04	0.08	0.06
Amortization of hedge premiums (\$/mcf)	(0.02)	(0.08)	(0.04)	(0.08)
Amortization of commodity sales contract (\$/mcf) ¹	0.03	0.08	0.04	0.08
Change in fair value of financial instruments (\$/mcf) ²	(0.16)	-	(0.07)	-
Natural gas - after hedging (\$/mcf)	6.99	6.07	6.97	7.03
Crude oil - before hedging (\$/bbl)	53.35	37.59	48.92	40.45
Hedging (\$/bbl)	(5.75)	-	(4.29)	(1.93)
Amortization of hedge premiums (\$/bbl)	(0.29)	(0.55)	(0.21)	(0.18)
Change in fair value of financial instrument (\$/bbl) ²	-	-	-	0.60
Crude oil - after hedging (\$/bbl)	47.31	37.04	44.42	38.94
Natural gas liquids (\$/bbl)	45.09	32.10	43.25	33.13

¹ 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.

² Change in fair value of financial instrument of ineffective hedges or contracts that did not qualify for hedge accounting.

Risk Management

The Trust utilizes a hedging program to manage exposure to fluctuations in commodity prices, to provide greater certainty and stability to distributions, to protect unitholder return on investment including acquisitions and to protect its capital program. 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 stabilize monthly distributions.

- To limit the permissible structures to ensure hedging effectiveness.
- To limit hedging up to a maximum of 50% of budgeted production.
- To limit hedging activity to counter-parties that provide sufficient collateral in support of payment or have investment grade credit ratings.

Progress's commodity risk management positions are fully described in Note 11 in the unaudited consolidated financial statements attached. The Trust currently has natural gas financial contacts in place for the following production volumes:

Financial Price Risk Management	Contract Natural Gas Volumes ('000 GJ/d)	% of Estimated Natural Gas Production
Fourth quarter of 2004	41.6	47
First quarter of 2005	45.0	48

Additionally the Trust has an outstanding crude oil hedge on 800 bbls per day for the period October 1, 2004 to December 31, 2004. This WTI hedge has a minimum floor price of US\$23.00 per bbl and a maximum ceiling of US\$30.00 per bbl.

Revenue

For the Quarter, petroleum and natural gas revenue increased 174 percent to \$68.3 million from \$24.9 million for the same period in 2003 due to higher production volumes as a result of the Cequel acquisition, partially offset by the transfer of properties to ProEx and increased commodity prices. Production revenue before hedging for the Quarter consisted of \$52.2 million from natural gas sales, \$12.1 million from crude oil sales and \$5.0 million from the sale of natural gas liquids.

During the nine months ended September 30, 2004, revenues increased 74 percent to \$137.9 million from \$79.2 million for the same period in 2003 primarily due to higher production volumes as a result of the Cequel acquisition, partially offset by the transfer of assets to ProEx.

For the Quarter and nine months ended September 30, 2004, petroleum and natural gas sales revenue was made up of the following balances compared to the same periods in 2003:

<i>(\$ thousands)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Natural gas sales	52,231	15,943	102,570	52,285
Crude oil sales	12,146	8,155	30,666	24,717
Natural gas liquids sales	4,966	855	7,340	2,664
Hedge settlements	210	120	(1,446)	(737)
Amortization of hedge premiums	(204)	(333)	(714)	(766)
Amortization of a commodity sales contract ¹	189	199	581	633
Change in the fair value of financial instruments ²	(1,239)	-	(1,075)	373
Petroleum and natural gas revenue	68,299	24,939	137,922	79,169

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

² Change in fair value of financial instrument of ineffective hedges or contracts that did not qualify for hedge accounting.

Royalties

For the Quarter, royalties increased 241 percent to \$16.8 million from \$4.9 million for the same period in 2003 due to increased revenue. For the nine months ended September 30, 2004, royalties increased 105 percent to \$33.9 million from \$16.5 million for the same period in 2003. The Trust's average royalty rate for the Quarter was 24.2 percent (after removing the effects of hedging charges) compared to 19.7 percent in 2003. Year-to-date average royalty rates were 24.1 percent compared to 20.8 percent in 2003. This rate increase is due to higher production volumes on higher royalty rate burdened farm-in lands located in British Columbia.

Management anticipates based on current commodity prices that average royalty rates for the remainder of 2004 will be between 25 and 27 percent.

Operating Expenses

Operating expenses increased 128 percent to \$9.3 million during the Quarter compared to \$4.1 million during the same period in 2003. For the nine months ended September 30, 2004, operating expenses increased 80 percent to \$19.7 million compared to \$10.9 million during the same period in 2003. On a boe basis, operating expenses for the Quarter decreased 2 percent to \$5.81 from \$5.92 in the same period in 2003, while year-to-date operating expenses increased 15 percent to \$6.03 from \$5.61 in the same period in 2003. Operating expenses during the Quarter were negatively impacted by annual plant maintenance at McMahon, Gold Creek and Thorsby. Scheduled maintenance at the Gold Creek plant in Alberta lasted 15 days, 5 days longer than originally planned. Plant maintenance impacted Quarterly production by approximately 1,500 boe per day and resulted in an increase to operating expenses for the Quarter of approximately \$0.8 million or \$0.50 per boe per day.

Management anticipates operating expense for the remainder of 2004 to be between \$5.00 and \$5.50 per boe.

Transportation Expenses

Transportation expenses increased 71 percent to \$3.2 million for the Quarter compared to \$1.8 million for the same period in 2003. For the nine months ended September 30, 2004 transportation expenses increased 52 percent to \$8.1 million from \$5.3 million for the same period in 2003. On a boe basis, transportation expenses during the Quarter decreased 27 percent to \$1.98 compared to \$2.70 for the same period in 2003, while year-to-date transportation expenses decreased two percent to \$2.49 compared to \$2.75 for the same period in 2003. The decrease for the Quarter and nine months ended September 30, 2004 on a boe basis is mainly attributable to a decrease in the proportion of production from British Columbia. As a result of the Cequel acquisition the Trust's production in British Columbia went from representing 76 percent of total production during the three months ended June 30, 2004 to 36 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 and nine months ended September 30, 2004 compared to the same periods in 2003:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Natural Gas Properties (\$/mcf)				
Sales price - before hedging	7.01	6.07	7.01	6.99
Hedging settlements	0.21	0.05	0.09	0.06
Amortization of hedge premiums	(0.02)	(0.09)	(0.04)	(0.09)
Amortization of commodity sales contract	0.03	0.08	0.04	0.09
Change in fair value of financial instruments	(0.17)	-	(0.08)	-
Royalties	(1.87)	(1.32)	(1.87)	(1.63)
Operating expenses ¹	(0.85)	(0.70)	(0.91)	(0.77)
Transportation	(0.36)	(0.59)	(0.48)	(0.59)
Operating netback – natural gas properties	3.98	3.50	3.76	4.06
Crude Oil Properties (\$/bbl)				
Sales Price - before hedging	45.46	36.57	42.35	38.23
Hedging settlements	(2.22)	-	(1.76)	(1.05)
Amortization of hedge premiums	(0.11)	(0.31)	(0.09)	(0.10)
Change in fair value of financial instrument	-	-	-	0.33
Royalties	(9.98)	(5.69)	(8.47)	(5.93)
Operating expenses	(9.14)	(9.52)	(7.94)	(7.56)
Transportation	(0.62)	(0.94)	(0.84)	(1.04)
Operating netback – crude oil properties	23.39	20.11	23.25	22.88

¹ Operating expenses were high during the Quarter due to annual plant maintenance at several gas plants (refer to Operating Expenses)

General and Administrative Expenses

For the Quarter, general and administrative expenses net of recoveries, (“G&A”) increased 175 percent to \$1.9 million (\$1.22 per boe) compared to \$0.7 million (\$1.03 per boe) for the same period in 2003. For the nine months ended September 30, 2004, G&A expenses increased 58 percent to \$3.5 million (\$1.09 per boe) from \$2.2 million (\$1.15 per boe) for the same period in 2003. 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.

In conjunction with the Arrangement, the Trust entered into a Technical Services Agreement with ProEx where the Trust shares 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. A Total costs for services included in G&A expenses above reimbursed by ProEx for the quarter were \$0.2 million.

The Trust capitalized approximately \$0.3 million of G&A during the Quarter and \$1.2 million for the nine months ended September 30, 2004. The majority of these costs represent geological and geophysical salaries.

Management anticipates G&A expense to average between \$1.10 to \$1.20 per boe for the fourth quarter of 2004.

Interest and Financing Expenses

Interest and financing expenses during the Quarter increased 91 percent to \$1.1 million compared to \$0.6 million for the same period in 2003. Interest for the nine months ended September 30, 2004 was \$2.3 million compared to \$1.6 million for the same period in 2003. The increase is primarily due to higher average debt levels due to the assumption of Cequel's debt, net of \$10.0 million of debt assumed by ProEx (refer to Plan of Arrangement).

Income and Capital Taxes

Capital taxes were \$0.6 million for the Quarter and \$0.2 million during the same period in 2003 and \$1.0 million for the nine months ended September 30, 2004 and \$0.6 million for that same period in 2003. The provision for future income taxes for the Quarter decreased to a recovery of \$4.3 million from an expense of \$2.6 million in same period in 2003. For the nine months ended September 30, 2004 the provision for future income taxes decreased to \$0.3 million from \$7.1 million for the same period in 2003. 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. Cash distributions in the Quarter totaled \$27.7 million, reducing the Trust's expected future income tax expense and resulting in a recovery for the Quarter.

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 \$20.6 million from \$6.3 million for the same period in 2003. For the nine months ended September 30, 2004, DD&A increased 100 percent to \$36.0 million from \$18.0 million for the same period in 2003. The increase is due to higher production in 2004. 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 for the three months ended September 30, 2004 was \$12.97 compared to \$9.26 in 2003 and the nine months ended September 30, 2004 was \$11.06 compared to \$9.26 for the same period in 2003.

With the reorganization of Progress, management expects depletion, depreciation and accretion per boe for the remainder of 2004 to be approximately \$13.00 per boe.

Net Earnings and Cash Flow

Net earnings increased 425 percent to \$19.1 million for the Quarter compared to \$3.6 million during the same period in 2003. The increase was primarily due to the Cequel acquisition and the reorganization into a trust which reduced Progress's expected future income tax expense. Basic net earnings for the Quarter were \$0.24 per trust unit compared to \$0.12 per trust unit during the same period in 2003. Similarly, diluted net earnings for the Quarter were \$0.24 per trust unit compared to \$0.11 per trust unit during the same period in 2003.

Net earnings for the nine months ended September 30, 2004 increased 76 percent to \$29.9 million from \$17.0 million during the same period in 2003. The increase was due to the Cequel acquisition and the reorganization into a trust which reduced Progress's expected future income tax expense. Net earnings for the nine months ended September 30, 2004 was \$0.60 per trust unit compared to \$0.54 per trust unit during the same period in 2003, while diluted net earnings for the nine months ended September 30, 2004 was \$0.58 per trust unit compared to \$0.51 per trust unit.

Cash flow increased 195 percent to \$36.4 million for the Quarter compared to \$12.3 million during the same period in 2003 due to higher production and commodity prices. Cash flow for the Quarter was \$0.45 per trust unit compared to \$0.40 per trust unit during the same period in 2003. Diluted cash flow for the Quarter was \$0.45 per trust unit compared to \$0.37 per trust unit during the same period in 2003.

Cash flow increased 69 percent to \$69.1 million for the nine months ended September 30, 2004 compared to \$40.9 million during the same period in 2003 due to higher production. Cash flow for the nine months ended September 30, 2004 was \$1.39 per trust unit compared to \$1.32 per trust unit for the same period in 2003, while diluted cash flow was \$1.35 per trust unit compared to \$1.23 per trust unit.

Quarterly Financial Summary ¹

(\$ thousands, except per unit amounts)	Three Months Ended							
	Sept 30 2004	Jun 30 2004	Mar 31 2004	Dec 31 2003	Sept 30 2003	Jun 30 2003	Mar 31 2003	Dec 31 2002
Petroleum and natural gas revenue	68,299	38,811	30,812	28,370	24,939	24,784	29,446	23,257
Cash flow	36,355	17,833	14,928	13,390	12,317	12,502	16,045	11,999
-Per unit basic	0.45	0.52	0.44	0.41	0.39	0.40	0.52	0.39
-Per unit diluted	0.45	0.49	0.41	0.39	0.37	0.37	0.48	0.37
Net earnings	19,149	4,464	6,247	4,293	3,647	6,835	6,470	2,723
-Per unit basic	0.24	0.13	0.19	0.13	0.12	0.22	0.21	0.09
-Per unit diluted	0.24	0.12	0.17	0.12	0.11	0.20	0.20	0.08

¹ The above amounts have been restated for changes in accounting policies, asset retirement obligations and transportation expense. Refer to Note 2 in the unaudited consolidated financial statements attached.

Capital Expenditures

During the Quarter the Trust invested approximately \$12.1 million in net capital expenditures compared to \$24.8 million in the same period in 2003. For the nine months ended September 30, 2004 Progress invested approximately \$72.4 million compared to \$65.4 million in the same period in 2003. For the Quarter, net property acquisitions (dispositions) primarily consists of undeveloped land purchased during the second quarter in contemplation of the formation of ProEx and subsequently sold to ProEx in the Quarter.

(\$ thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Land acquisitions and retention	615	962	9,063	7,840
Geological and geophysical	484	1,046	6,784	5,089
Drilling and completions	8,903	14,420	38,712	33,759
Equipping and facilities	5,501	8,007	24,059	16,222
Net property acquisitions (dispositions)	(3,719)	266	(7,287)	2,282
Corporate assets	328	67	1,097	244
Total net capital expenditures	12,112	24,768	72,428	65,436

During the Quarter, Progress drilled 10 gross wells (6.2 net) with a 100 percent success rate. Four 100 percent working interest wells were drilled in the shallow foothills of northeast British Columbia, three at Town and one at Blueberry. Four 20 percent working interest wells were drilled in the Gundy field. The success of the drilling program in the shallow foothills of northeast British Columbia continues to support the long-term development potential of this tight, multi-zone gas region. In the largest producing region, Gold Creek in northwest Alberta, the Trust drilled a 100 percent working interest well and also drilled a 40 percent working interest well with its joint venture partner.

The full benefits of the third quarter drilling program will be realized in the fourth quarter as only two of the successful discoveries have been tied-in to-date at a combined rate of approximately two million cubic feet per day with the balance of expected production currently behind pipe. Operations were suspended over the second half of the quarter because of extremely wet field conditions which limited drilling, completions and tie-in activities. With the onset of dryer conditions, the Trust currently has three drilling and three service rigs working in the field.

The Trust expects to drill 15-18 gross wells in the fourth quarter with 12-15 wells focused in the foothills and plains regions of northeast British Columbia and three wells planned in the Gold Creek area of northwest Alberta on a capital program totaling approximately \$23.0 million.

Goodwill

The Trust recorded goodwill of \$401.3 million during the Quarter as a result of the acquisition of Cequel.

Liquidity and Capital Resources

<i>(\$ thousands)</i>	September 30, 2004	December 31, 2003
Working capital deficiency	22,580	10,360
Bank debt	129,000	45,073
Total debt	151,580	55,433

At September 30, 2004 the Trust had \$129.0 million outstanding on its credit facility and a working capital deficiency of \$22.6 million, totaling \$151.6 million of total debt. In conjunction with the Arrangement, the Trust has entered into new credit facilities with a syndicate of banks and currently has 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. 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.

Bank debt increased from \$45.1 million as at December 31, 2003 to \$129.0 million as at September 30, 2004. This increase is primarily the result of the assumption of Cequel's debt, net of \$10.0 million of debt assumed by ProEx. Working capital deficiency increased from \$10.4 million as at December 31, 2003 to \$22.6 million as at September 30, 2004 due to increased revenue receivables as a result of the Cequel acquisition.

On July 2, 2004, pursuant to the Arrangement, the Trust completed a private placement issuing 250,003 units for proceeds of \$3.0 million.

The Trust's investing activities which consisted primarily of expenditures on the capital program for 2004 has been funded primarily with cash flow or additional total debt.

<i>(\$ thousands)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Investment Program Funding				
Cash flow from operations	36,355	12,317	69,116	40,865
Changes in non-cash operating working capital	9,386	(767)	11,226	(753)
Increase (decrease) in bank debt	(2,769)	1,018	39,454	10,237
Issue of units (net of unit issue costs)	996	32	6,402	1,351
Plan of arrangement costs	-	-	(21,943)	-
Cash distributions	(18,407)	-	(18,407)	-
Change in non-cash financing working capital	(966)	-	5,103	-
Deferred plan of arrangement costs	6,700	-	-	-
Corporate acquisition	(1,597)	-	(1,597)	-
Change in non-cash investing working capital	5,821	12,168	6,481	10,790
Cash position, beginning of period	-	-	-	2,946
Cash position, end of period	(23,407)	-	(23,407)	-
	12,112	24,768	72,428	65,436

Progress plans to finance future commitments with a combination of cash flow, debt and equity. 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 70% 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 (79 percent in the Quarter), natural gas prices have a significant effect on its cash flow.

The amount of distributable cash of the Trust is calculated in accordance with the Trust's indenture. 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.

	Three Months Ended September 30 2004
<i>(Thousands, except per share amounts)</i>	
Cash flow from operations before changes in non-cash working capital	36,355
Cash withheld to fund capital expenditures	8,685
Cash distributions declared	27,670
Accumulated cash distributions, beginning of period	-
Accumulated cash distributions, end of period	27,670
Cash distributions per unit ¹	0.42
Accumulated cash distributions per unit, beginning of period	-
Accumulated cash distributions per unit, end of period	0.42

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

Management believes with current commodity prices, forecasted cash distributions of \$0.14 per trust unit and forecasted fourth quarter production, the Trust will meet its cash flow distribution target of approximately 70% of cash flow in the fourth quarter.

An assessment of the Trust's unitholder base indicates that approximately 30 percent of the trust units are held by non-residents of Canada. As such, the proposed change to the Income Tax Act to reduce foreign ownership in mutual fund trusts to less than 50 percent of the value of the trust is not expected to have an impact on Progress.

An assessment of the Trust's unitholder base indicates that approximately 30 percent of the trust units are held by non-residents of Canada. As such, the proposed change to the Income Tax Act to reduce foreign ownership in mutual fund trusts to less than 50 percent of the value of the trust is not expected to have an impact on Progress.

Tax Treatment of Distributions

Progress has provided to unitholders general comments regarding the taxability of distributions but does not intend to provide legal or tax advice. Trust unitholders, exchangeable shareholders, or potential investors should seek their own legal or tax advice in this regard.

Canadian Individual Trust Unitholders and Exchangeable Shareholders

The Trust currently qualifies as a mutual fund trust under the Income Tax Act (Canada) and, accordingly, trust units of the Trust are qualified investments for RRSP's, RRIF's, RESP's and DPSP's. Each year, the Trust is required to file an income tax return and any taxable income in the Trust is allocated to the unitholders. Unitholders are generally required to include in computing income, their pro-rata share of any taxable income earned by the Trust in that year. An investor's adjusted cost base ("ACB") in a trust unit equals the purchase price of the trust units less any non-taxable cash distributions received from the date of acquisition. To the extent a unitholder's ACB is reduced below zero, such amount will be deemed to be a capital gain to the unitholder and the unitholder's ACB will be brought to \$nil.

Management estimates that approximately 85 percent of the distributions to Canadian unitholders in 2004 will be taxable and the remaining 15 percent will be treated as a tax deferred return of capital. Actual taxable amounts may vary depending on actual distributions which are dependant upon production, commodity prices and funds flow experienced throughout the year.

The exchangeable shares are listed on the TSX under the symbol "PGE" and are convertible into trust units, at the option of the shareholder, based on the then current exchange ratio. Exchangeable shareholders are not eligible to receive monthly cash distributions, however exchange ratio increases on a monthly basis by an amount equal to the current month's trust unit distribution multiplied by the then current exchange ratio and divided by the 5 day weighted average trading price of the trust units at the end of each month. The gain realized as a result of the monthly increase in the exchange ratio is, in most circumstances, taxed as a capital gain rather than income and is therefore subject to a lower effective tax rate. Tax on the exchangeable shares is deferred until the exchangeable share is sold or converted into a trust unit.

United States Resident Unitholders

United States ("US") resident unitholders who receive cash distributions are generally subject to a 15% Canadian withholding tax, applied to the taxable portion of the distribution as computed under Canadian tax law. Commencing in 2005, 100 % of the cash distributions to US unitholders will be subject to 15% Canadian withholding tax. US tax payers may be eligible for a foreign tax credit with respect to Canadian withholding taxes paid. The foreign tax credit limitations are very complex and US taxpayers should consult with their tax advisors regarding it's application.

Progress elected to be treated as a corporation for US tax purposes. The taxable portion of the cash distribution for US tax purposes is determined by Progress in relation to its current and accumulated earnings and profits using US income tax principles. The taxable portion determined is considered to be a dividend for US tax purposes. For most US taxpayers this should be a "Qualified Dividend" eligible for the reduced tax rate.

The non-taxable portion of the cash distribution is a return of the cost (or other basis). The cost (or other basis) is reduced by this amount for computing any gain or loss arising from disposition. However, if the full amount of the cost (or other basis) has been recovered, any further non-taxable distributions should be reported as gains.

Management estimates that 85% of cash distributions may be taxable and 15% may be a tax deferred return of capital for tax purposes for 2004. Actual taxable amounts may vary depending on actual distributions which are dependant upon production, commodity prices and cash flow experienced throughout the year.

Tax Information for Former Cequel and Progress Energy Ltd. Shareholders

As outlined in the Information Circular dated May 28, 2004 (page 55), former Cequel or Progress Energy Ltd. shareholders who elected to receive exchangeable shares of AmalgamationCo pursuant to the Arrangement and wish to defer the recognition of some or all of the gain that may be realized on the exchange of shares must provide AmalgamationCo two signed copies of the completed prescribed form of election (including any applicable provincial tax elections relevant to such shareholder) no later than **October 31, 2004**. The election form will be signed by AmalgamationCo and returned to shareholder for filing to the Canada Revenue Agency by the shareholder on or before January 2, 2005 (to avoid late filing penalties). It is the sole responsibility of the

shareholder who wishes to take advantage of the tax deferral provided for by section 85 of the Tax Act in that regard.

If you did not receive an exchangeable share reporting package dated August 13, 2004, you can obtain an electronic copy on our website under Tax Information

Change in Accounting Policies

Effective January 1, 2004, the Trust adopted the new Canadian accounting standard for asset retirement obligations. The three and nine months ended September 30, 2003 financial statements have been restated to reflect this change resulting in a reduction of \$0.1 million and \$0.2 million to net earnings respectively. Effective January 1, 2004, and consistent with the adoption of the new Canadian accounting standard for generally accepted accounting principles, transportation expenses have been reclassified as an expense in the consolidated statements of earnings and accumulated earnings for the three and nine months ended September 30, 2004 and 2003. Previously, as was industry practice, transportation expenses were netted off revenue. Also effective January 1, 2004, the Trust 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 Trust.

Additional Information

Additional information regarding the Trust and its business and operations, including the annual information for of Progress Energy Ltd. for the period ended December 31, 2003, is available on the Trust's and Progress Energy Ltd's SEDAR company profiles at www.sedar.com.

PROGRESS ENERGY TRUST CONSOLIDATED BALANCE SHEETS

<i>(\$ thousands)</i>	September 30, 2004	December 31, 2003
	<i>(Unaudited)</i>	<i>(Audited) (Restated Note 2)</i>
ASSETS		
Current		
Cash and short-term investments	23,407	-
Accounts receivable	22,436	15,203
Prepaid expenses and deposits	4,535	2,790
	50,378	17,993
Property, plant and equipment <i>(Note 5)</i>	623,119	225,119
Goodwill <i>(Note 3)</i>	410,255	9,000
	1,083,752	252,112
LIABILITIES		
Current		
Accounts payable and accrued liabilities	57,191	28,353
Cash distributions payable	9,263	-
Current income taxes payable	6,504	-
	72,958	28,353
Bank debt <i>(Note 6)</i>	129,000	45,073
Commodity sales contract <i>(Note 11)</i>	2,275	2,856
Asset retirement obligations <i>(Notes 2 and 7)</i>	15,660	11,778
Future income taxes <i>(Note 9)</i>	109,259	32,274
	329,152	120,334
UNITHOLDERS' EQUITY		
Unitholders' capital <i>(Note 8)</i>	608,091	96,752
Exchangeable shares <i>(Note 8)</i>	139,715	-
Contributed surplus <i>(Note 8)</i>	-	246
Accumulated earnings	34,464	34,780
Accumulated cash distributions	(27,670)	-
	754,600	131,778
	1,083,752	252,112

See accompanying notes to the consolidated financial statements

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

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(\$ thousands, except per unit amounts)</i>	2004	2003 <i>(Restated Note 2)</i>	2004	2003 <i>(Restated Note 2)</i>
REVENUE				
Petroleum and natural gas	68,299	24,939	137,922	79,169
Royalties	(16,750)	(4,918)	(33,850)	(16,534)
	51,549	20,021	104,072	62,635
EXPENSES				
Operating	9,255	4,053	19,667	10,896
Transportation <i>(Note 2)</i>	3,152	1,846	8,124	5,343
General and administrative	1,938	706	3,545	2,242
Interest and financing	1,116	583	2,254	1,554
Depletion, depreciation and accretion	20,645	6,335	36,048	17,983
Plan of arrangement <i>(Note 4)</i>	-	-	3,314	-
	36,106	13,523	72,952	38,018
Earnings before taxes	15,443	6,498	31,120	24,617
TAXES				
Capital taxes	571	203	935	578
Future income taxes <i>(Note 9)</i>	(4,277)	2,648	325	7,086
	(3,706)	2,851	1,260	7,664
NET EARNINGS	19,149	3,647	29,860	16,953
Accumulated earnings, beginning of period	32,647	28,216	36,290	14,800
Retroactive application of change in accounting policy <i>(Notes 2 and 7)</i>	-	(1,230)	(1,510)	(1,119)
Accumulated earnings, beginning of period, as restated	32,647	26,986	34,780	13,681
Plan of arrangement <i>(Note 4)</i>	(17,332)	-	(30,176)	-
Accumulated earnings, end of period	34,464	30,633	34,464	30,634
NET EARNINGS PER UNIT (\$) <i>(Note 8)</i>				
Basic	0.24	0.12	0.60	0.54
Diluted	0.24	0.11	0.58	0.51

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003 (Restated Note 2)	2004	2003 (Restated Note 2)
<i>(\$ thousands)</i>				
Operating Activities				
Net earnings	19,149	3,647	29,860	16,953
Depletion, depreciation and accretion	20,645	6,335	36,048	17,983
Amortization of commodity sales contract	(189)	(199)	(581)	(633)
Stock based compensation expense	-	-	2,718	-
Asset retirement expenditures	(212)	(114)	(329)	(151)
Change in fair value of financial instruments (Note 11)	1,239	-	1,075	(373)
Future income taxes	(4,277)	2,648	325	7,086
Cash flow from operations	36,355	12,317	69,116	40,865
Changes in non-cash working capital (Note 10)	9,386	(767)	11,226	(753)
	45,741	11,550	80,342	40,112
Financing Activities				
Increase in bank debt	(2,769)	1,018	39,454	10,237
Cash distributions	(18,407)	-	(18,407)	-
Issue of units (Note 8)	2,993	32	8,403	1,351
Plan of arrangement (Note 4)	-	-	(21,943)	-
Deferred plan of arrangement costs	3,350	-	-	-
Share issue costs (Note 8)	(1,997)	-	(2,001)	-
Changes in non-cash working capital (Note 10)	(966)	-	5,103	-
	(17,796)	1,050	10,609	11,588
Investing Activities				
Deferred plan of arrangement costs	3,350	-	-	-
Corporate acquisition (Note 3)	(1,597)	-	(1,597)	-
Capital expenditures	(12,112)	(24,768)	(72,428)	(65,436)
Change in non-cash working capital (Note 10)	5,821	12,168	6,481	10,790
	(4,538)	(12,600)	(67,544)	(54,646)
Change in cash	23,407	-	23,407	(2,946)
Cash and short-term investments, beginning of period	-	-	-	2,946
Cash and short-term investments, end of period	23,407	-	23,407	-

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. (“Progress”) and Cequel Energy Inc. (“Cequel”). The reorganization resulted in the shareholders of Progress Energy Ltd. and Cequel receiving trust units or exchangeable shares in the Trust, a new energy trust that owns approximately 90 percent of the combined assets of Progress Energy Ltd. and Cequel. In addition, the shareholders of Progress Energy Ltd. and Cequel received shares in two separate, publicly-listed, exploration-focused companies, ProEx Energy Ltd. (“ProEx”) and Cyries Energy Inc. (“Cyries”). The remaining properties were transferred to ProEx and Cyries, respectively, consisting of certain prospective natural gas weighted assets and undeveloped land.

Pursuant to the Arrangement, shareholders of both Progress Energy Ltd. and Cequel received shares of both ProEx and Cyries and at their election, either units of the Trust, which will pay monthly cash distributions or exchangeable shares which may be exchanged into units of the Trust. 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.

As part of the Arrangement, the Trust put in place new credit facilities totaling \$215 million to replace existing debt (refer to Note 6, Bank Debt).

Upon completion of the Arrangement, 65.4 million trust units and 16.0 million exchangeable shares were outstanding.

The conversion of Progress Energy Ltd. to a Trust has been accounted for as a continuity of interest. Accordingly, the consolidated financial statements for 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 nine months ended September 30, 2004 reflect the results of operations and cash flows of Progress Energy Ltd. and its subsidiaries for the period January 1 to July 1, 2004 and the results of operations and cash flows of the Trust and its subsidiary for the period July 2 to September 30, 2004. The comparative figures are the results of Progress Energy Ltd. and its subsidiaries. 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 the corporation 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 with ProEx where the Trust shares 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. Total expense reimbursed by ProEx for the three and nine months ended September 30, 2004 was \$0.2 million. As contemplated in the Plan of Arrangement, ProEx has granted performance shares to the employees of Progress as service providers.

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 with ProEx that specifies how each company will govern the management of the joint lands in specifically identified areas of interest. The Protocol Arrangement identifies methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. 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.

As at September 30, 2004, accounts payable included \$2.2 million payable to ProEx which includes standard joint venture amounts including revenue. These amounts were paid subsequent to September 30, 2004. During the three months ended September 30, 2004, the Trust sold ProEx \$3.1 million of assets it purchased during the three months ended June 30, 2004, in contemplation of the formation of ProEx. The assets primarily consisted of undeveloped land.

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 Progress Energy Ltd. 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 Progress Energy Ltd's annual report for the year ended December 31, 2003.

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").

2. CHANGES IN ACCOUNTING POLICIES

Asset Retirement Obligations

Effective January 1, 2004, the Trust adopted the new Canadian accounting standard for asset retirement obligations. Under this new standard, the Trust 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. The impact of the adoption of the new standard is described in note 7.

Full Cost Accounting Guideline

Effective January 1, 2004, the Trust 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 5.

Hedging Relationships

Effective January 1, 2004, the Trust 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 assess the effectiveness of hedging relationships. Also early in 2004, an amended accounting abstract became effective which requires financial instruments that are not designated as hedges to be recorded at fair value on the balance sheet with changes in fair value recognized in earnings. The adoption of the guideline and amended abstract had no impact on the Trust's financial position as at January 1, 2004.

Transportation Expenses

Effective January 1, 2004, and consistent with the adoption of the new Canadian accounting standard for generally accepted accounting principles, transportation costs are presented as an expense in the Consolidated Statements of Earnings and Accumulated Earnings. The new standard defines the sources of GAAP and effectively eliminates industry practice as a source of GAAP. In 2003, as was industry practice, transportation expenses were netted off revenue and have been reclassified to conform to the presentation adopted in 2004. In British Columbia, there is an infrastructure in place 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.

3. ACQUISITION OF CEQUEL ENERGY INC.

On July 2, 2004, pursuant to the Arrangement, Progress Energy Ltd. and Cequel amalgamated to create Progress 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 financial statements from the date of acquisition. The transaction has been allocated as follows:

Net assets acquired ¹	
Property, plant and equipment	387,276
Goodwill	401,255
Working capital deficiency	(11,079)
Bank debt	(44,473)
Asset retirement obligations	(6,670)
Future income taxes	(80,071)
Total net assets acquired	646,238
Consideration	

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

¹ 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

4. PLAN OF ARRANGEMENT

Under the Arrangement, Progress Energy Ltd. transferred to ProEx certain prospective natural gas weighted assets and undeveloped land. 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:

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Petroleum and natural gas properties	26,377	26,377
Future income tax assets	2,768	2,768
Asset retirement obligations	(1,813)	(1,813)
Total assets transferred	27,332	27,332
Bank indebtedness assumed	(10,000)	(10,000)
Net assets transferred and reduction in accumulated earnings	17,332	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	17,332	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 statement of earnings for the nine months ended September 30, 2004.

5. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2004	(Restated) December 31, 2003
Property, plant and equipment	716,630	286,845
Accumulated depletion and depreciation	(93,511)	(61,726)
Property, plant and equipment, net	623,119	225,119

The calculation of 2004 depletion and depreciation included an estimated \$17.4 million for future development costs associated with proven undeveloped reserves and excluded \$23.9 million for the estimated future net realizable value of production equipment and facilities and \$71.6 million for the estimated value of unproven properties. Depletion and depreciation expense for the nine months ended September 30, 2004 was \$35.3 million.

Included in the Trust's property, plant and equipment balance is \$10.1 million, net of accumulated depletion, related to asset retirement obligations (\$14.2 million before accumulated depletion) (Refer to note 7).

The Trust capitalized approximately \$1.2 of geological and geophysical expenses associated with the exploration and development of capital assets during the nine month's ended September 30, 2004 (\$0.7 million in 2003)

Adoption of the new guideline for oil and gas accounting using the full cost method, as outlined in note 2, had no effect on the Trust's financial statements. The future commodity prices used in the ceiling test prepared on initial adoption were based on January 1, 2004 commodity price forecasts of the Trust's independent reserve engineers adjusted for differentials specific to the Trust's reserves. The following table summarizes the future benchmark prices the Trust used in the ceiling test:

	Crude Oil		Natural Gas		Natural Gas Liquids		
	West Texas Intermediate	Edmonton Par Price	AECO Gas price	Spec Ethane	Edmonton Propane	Edmonton Butane	Edmonton Pentanes
	(Cdn\$/bbl) ⁽¹⁾	(Cdn\$/bbl)	(Cdn\$/mmbtu)	(Cdn\$/bbl)	(Cdn\$/bbl)	(Cdn\$/bbl)	(Cdn\$/bbl)
2004	38.67	37.35	5.85	19.50	26.75	28.75	38.25
2005	34.67	33.75	5.15	17.00	21.75	23.75	34.25
2006	33.33	32.50	5.00	16.50	20.50	22.50	33.00
2007	33.33	32.50	5.00	16.50	20.50	22.50	33.00
2008	33.33	32.50	5.00	16.50	20.50	22.50	33.00
Thereafter ⁽²⁾	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

⁽¹⁾ Future prices incorporated a \$0.75 US/Cdn exchange rate.

⁽²⁾ Percentage change of 1.5% represents the change in future prices each year after 2009 to the end of the reserve life.

6. BANK DEBT

	September 30, 2004	December 31, 2003
Direct advances	-	10,158
Banker's acceptances	129,000	34,915
Total bank debt	129,000	45,073

In conjunction with the Arrangement, the Trust has entered into new credit facilities with a syndicate of banks and currently has 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. The credit facilities are secured by a \$500 million fixed and floating charge debenture on the assets of the Trust and by a guarantee and subordination provided by Progress in respect of the Trust's obligations. The \$215 million borrowing base is subject to semi-annual review by the banks.

7. ASSET RETIREMENT OBLIGATIONS

The new accounting standard, as outlined in note 3, 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):

As at

Balance Sheet	December 31, 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)
Accumulated earnings	(1,510)	(1,119)

Income Statement	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Depletion, depreciation and accretion	176	347	379
Future income taxes	(62)	(123)	(134)
Net earnings	(114)	(224)	(245)
Net earnings per share			
Basic	-	-	(0.01)
Diluted	-	-	(0.01)

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 \$41.5 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 Trust's asset retirement obligations:

	2004	Nine Months Ended September 30 2003	Year Ended December 31 2003
Balance, beginning of period	11,778	11,987	11,987
Liabilities incurred	588	1,147	1,731
Liabilities settled	(329)	(151)	(225)
Acquisitions (<i>Note 3</i>)	6,670	-	-
Dispositions	(3,811)	-	(2,687)
Accretion expense	764	730	972
Balance, end of period	15,660	13,713	11,778

8. UNITHOLDERS' CAPITAL AND EXCHANGEABLE SHARES

	Nine months ended September 30			
	2004		2003	
Trust Units of Progress Energy Trust (including the conversion of Exchangeable Shares)	Number	Amount	Number	Amount
Trust units outstanding (see (a) below)	66,163,936	608,091	-	-
Trust units issuable on conversion of exchangeable shares ¹ (see (b) below)	15,574,915	139,715	-	-
Balance, end of period	81,738,851	747,806	-	-

¹ The exchange ratio at September 30, 2004 was 1.02188.

(a) Trust Units of Progress Energy Trust

	<u>Nine months ended September 30</u>			
	<u>2004</u>		<u>2003</u>	
	Number	Amount	Number	Amount
Trust Units				
Balance, beginning of period	-	-	-	-
Issued for common shares	28,238,061	81,869	-	-
Issued on Cequel acquisition (<i>Note 3</i>)	36,911,352	518,272	-	-
Issued for cash	250,003	2,993	-	-
Exchangeable shares converted	764,520	6,954	-	-
Unit issue costs		(1,997)		
Balance, end of period	66,163,936	608,091	-	-

Redemption Right

Unitholders may redeem their trust units for cash at any time 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 of Progress Energy Ltd.

	<u>Nine months ended September 30</u>			
	<u>2004</u>		<u>2003</u>	
	Number	Amount	Number	Amount
Exchangeable Shares				
Balance, beginning of period	-	-	-	-
Issued for common shares	6,999,994	20,300	-	-
Issued on Cequel acquisition (<i>Note 3</i>)	9,000,000	126,369	-	-
Exchanged for trust units	(758,561)	(6,954)	-	-
Balance, end of period	15,241,433	139,715	-	-

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

Retraction of Exchangeable Shares

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

(c) Common Shares of Progress Energy Ltd.

	Nine months ended September 30			
	2004		2003	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	33,411,094	96,752	30,911,781	74,477
Issued on exercise of stock options	573,463	2,095	415,645	1,351
Issued on exercise of warrants	1,253,498	3,322	-	-
Exchanged for trust units	(28,238,061)	(81,869)	-	-
Exchanged for exchangeable shares	(6,999,994)	(20,300)	-	-
Balance, end of period	-	-	31,327,426	75,828
Warrants				
Balance, beginning of period	1,253,498	276	1,253,498	276
Warrants exercised	(1,253,498)	(276)	-	-
Balance, end of period	-	-	1,253,498	276
Total share capital	-	-	-	76,104

Net Earnings Per Unit

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Weighted average trust units and issuable exchangeable shares				
Basic	81,015,692	31,324,526	49,759,108	31,118,590
Diluted	81,015,692	33,619,959	51,279,764	33,378,922

The reconciling items between the basic and diluted average trust units are outstanding stock options and warrants.

Stock Options

The following table sets forth a reconciliation of the stock option plan activity through to September 30, 2004:

	Number of options	Weighted average exercise price
Balance, beginning of period	3,205,938	5.91
Granted	17,000	12.75
Exercised	(573,463)	3.64
Settled for cash	(2,649,475)	6.44

Balance, end of period	-	-
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The Trust 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 Trust 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 Trust for the first and second quarter of 2003 and consequently there has been no restatement of the financial statements for the three and nine months ended September 30, 2003.

The following table reconciles the Trust's contributed surplus:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Balance, beginning of period	-	-	246	-
Stock based compensation expense	-	-	2,718	-
Options exercised	-	-	(10)	-
Options settled for cash	-	-	(2,954)	-
Balance, end of period	-	-	-	-

The Trust 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 Trust's net earnings and net earnings per trust unit for the periods ended September 30, 2004 and 2003 would approximate the following pro forma amounts:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Net Earnings:				
As reported	19,149	3,647	29,860	16,953
Pro forma	18,913	3,332	29,157	16,117
Net Earnings per Share:				
Basic				
As reported	0.24	0.12	0.60	0.54
Pro forma	0.23	0.11	0.59	0.52
Diluted				
As reported	0.24	0.11	0.58	0.51
Pro forma	0.23	0.10	0.57	0.48

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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Weighted average assumptions				
Risk free interest rate (%)	-	-	3.29	4.07
Expected life (years)	-	-	4.00	4.00
Expected volatility (%)	-	-	34	34
Weighted average results				
Fair value of options granted (\$)	-	-	4.05	2.73

9. TAXES

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. Cash distributions for the three months ended September 30, 2004 totaled \$27.7 million, reducing the Trust's expected future income tax expense and resulting in a recovery for the three months ended September 30, 2004.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Accounts receivable	45,028	2,938	37,032	11
Prepaid expenses and deposits	584	630	412	358
Accounts payables	(41,536)	7,833	(24,799)	9,668
Cash distributions payable	9,161	-	9,161	-
Current income taxes payable	1,004	-	1,004	-
Change in non-cash working capital	14,241	11,401	22,810	10,037

Relating to:

Financing activities	(966)	-	5,103	-
Investing activities	5,821	12,168	6,481	10,790
Operating activities	9,386	(767)	11,226	(753)

Interest and taxes paid

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Interest paid	1,382	722	2,487	1,609
Income and other taxes paid	(260)	436	301	576

11. FINANCIAL INSTRUMENTS

Commodity Price Contracts

The Trust has entered into several derivative financial instruments for both crude oil and natural gas for the purpose of protecting its cash flow from operations from the volatility of crude oil and natural gas commodity prices. Certain natural gas collars, described below, were ineffective in hedging the Trust's natural gas sales. Consequently, the change in fair value of these financial instruments from the date they became ineffective resulted in a gain of \$0.1 million in the three months ended September 30, 2004 and \$0.2 million for the nine months ended September 30, 2004. A natural gas collar was acquired in the Cequel acquisition valued at \$1.7 million at June 30, 2004 and capitalized as part of the purchase. During the quarter \$1.3 million was charged to earnings for this collar. For the three and nine months ended September 30, 2004, the Trust's crude oil and natural gas price risk management program, including the change in the fair value of ineffective hedges, had a net cost of \$2.0 million and \$3.2 million (2003 - \$0.1 million and \$0.5 million), 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
Crude Oil					
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, 3}	10,000 gj/d	AECO	Cdn\$5.00 – Cdn\$6.50	Cdn\$0.15/gj	Apr 01/04 – Oct 31/04
Costless collar ^{1, 3}	5,000 gj/d	AECO	Cdn\$5.70 – Cdn\$7.00	n/a	Apr 01/04 – Oct 31/04
Costless collar ^{1, 3}	5,000 gj/d	AECO	Cdn\$5.75 – Cdn\$7.00	n/a	Jul 01/04 – Oct 31/04
Costless collar ¹	25,000 gj/d	AECO	Cdn\$7.00 – Cdn\$7.95	n/a	Jul 01/04 – Oct 31/04
Costless collar ¹	5,000 gj/d	AECO	Cdn\$6.75 – Cdn\$9.35	n/a	Nov 01/04 – Mar 31/05
Costless collar ¹	5,000 gj/d	AECO	Cdn\$6.50 – Cdn\$7.25	n/a	Nov 01/04 – Mar 31/05
Costless collar ¹	5,000 gj/d	AECO	Cdn\$6.50 – Cdn\$8.00	n/a	Nov 01/04 – Mar 31/05
Costless collar ¹	10,000 gj/d	AECO	Cdn\$6.50 – Cdn\$8.90	n/a	Nov 01/04 – Mar 31/05
Costless collar ¹	5,000 gj/d	AECO	Cdn\$7.25 – Cdn\$9.75	n/a	Nov 01/04 – Mar 31/05
Costless collar ^{1, 2}	5,000 gj/d	AECO	Cdn\$7.50 – Cdn\$9.90	n/a	Nov 01/04 – Mar 31/05
Costless collar ^{1, 2}	5,000 gj/d	AECO	Cdn\$7.50 – Cdn\$10.00	n/a	Nov 01/04 – Mar 31/05
Put option ²	5,000 gj/d	AECO	\$8.50/GJ	\$0.55/gj	Dec 1/04 – Mar 31/05

¹ Collar strike price indicates minimum floor and maximum ceiling

² Contract entered into subsequent to September 30, 2004

³ Do not qualify for hedge accounting

The estimated fair value of the crude oil price collar and natural gas collars that qualify for hedge accounting was a loss of \$2.3 million and \$0.5 million, respectively as at September 30, 2004 and represents the amount the Trust would pay to terminate the contracts at September 30, 2004. These instruments have no carrying value recorded in the financial statements.

Commodity Sales Contract

The following physical gas sales contract was outstanding at September 30, 2004. 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 September 30, 2004 the remaining liability was \$2.3 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

SELECTED QUARTERLY INFORMATION

FINANCIAL HIGHLIGHTS

<i>(\$ thousands except per unit amounts)</i>	Three Months Ended						
	2003				2004		
	March 31	June 30	Sept 30	Dec 31	March 31	June 30	Sept 30
Income Statement							
Petroleum and natural gas revenue	29,446	24,784	24,939	28,370	30,812	38,811	68,299
Cash flow ¹	16,045	12,502	12,317	13,390	14,928	17,833	36,355
Per unit - basic	0.52	0.40	0.39	0.41	0.44	0.52	0.45
Per unit - diluted	0.48	0.37	0.37	0.39	0.41	0.49	0.45
Cash distributions declared							27,670
Per unit							0.42
Net earnings	6,470	6,835	3,647	4,293	6,247	4,464	19,149
Per unit - basic	0.21	0.22	0.12	0.13	0.19	0.13	0.24
Per unit - diluted	0.20	0.20	0.11	0.12	0.17	0.12	0.24
Payout Ratio							
Excluding exchangeable shares							76%
Including exchangeable shares							94%
Balance Sheet							
Capital Expenditures	24,476	15,192	24,768	18,858	43,702	16,615	12,112
Total debt	56,318	57,748	70,167	55,433	82,252	106,061	151,580
Unitholders' equity	96,134	104,288	108,081	133,288	140,224	134,816	754,600
Trust Units <i>(thousands except where otherwise stated)</i>							
Units outstanding, end of period	30,937	31,320	31,327	33,411	33,939	35,238	66,164
Units issuable for exchangeable shares							15,575
Total units outstanding and issuable for exchangeable shares, end of period	30,922	31,104	31,325	32,600	33,761	34,156	81,739
Weighted average units ²							81,016
Exchange ratio, end of period							1.02188
Trust Unit Trading Statistics (\$)							
High							15.09
Low							12.12
Closing							14.95
Unit volume traded (thousands)							46,567
Exchangeable Shares Trading Statistics (\$)							
High							15.25
Low							13.00
Closing							15.25
Share volume traded (thousands)							272

¹ See discussion in the Management Discussion and Analysis

² Includes exchangeable shares converted at the end of period exchange ratio.

SELECTED QUARTERLY INFORMATION

OPERATIONAL HIGHLIGHTS

	Three Months Ended						
	2003				2004		
	March 31	June 30	Sept 30	Dec 31	March 31	June 30	Sept 30
Daily Production							
Natural gas (mcf/d)	26,830	26,873	28,736	33,237	34,805	44,809	81,783
Crude oil (bbls/d)	2,094	2,260	2,358	2,629	2,227	2,160	2,475
Natural gas liquids (bbls/d)	311	284	289	315	329	325	1,197
Total daily production (boe/d)	6,877	7,022	7,436	8,483	8,357	9,953	17,302
Average Realized Prices							
Natural gas - before hedging (\$/mcf)	8.21	6.76	6.03	5.89	6.66	7.17	6.94
Natural gas - after hedging (\$/mcf)	8.30	6.80	6.07	6.04	6.63	7.16	6.99
Crude oil - before hedging (\$/bbl)	47.64	37.54	37.69	37.73	44.15	48.75	53.35
Crude oil - after hedging (\$/bbl)	44.17	36.84	37.14	36.35	43.12	42.47	47.31
Natural gas liquids (\$/bbl)	38.99	27.85	32.16	32.71	36.33	43.40	45.09
Highlights (\$/boe)							
Weighted average sales price	47.57	39.00	36.48	36.15	40.52	42.85	42.91
Royalties	10.35	8.15	7.19	7.76	9.39	10.99	10.52
Operating expenses	5.42	5.46	5.92	5.68	6.36	6.15	5.81
Transportation expenses	2.47	3.29	2.73	2.75	2.99	2.98	1.98
Operating Netbacks	29.33	22.10	20.64	19.96	21.78	22.73	24.60
General and administrative expense	1.39	1.06	1.03	1.80	1.29	0.69	1.22
Interest and financing expenses	0.67	0.86	0.85	0.68	0.66	0.69	0.70
Depletion, depreciation and accretion	9.14	9.38	9.26	9.39	8.97	9.47	12.97
Plan of arrangement expenses							-
Net earnings before taxes	18.13	10.80	9.50	8.09	10.86	8.19	9.71
Capital taxes	0.31	0.29	0.30	0.29	0.24	0.20	0.35
Future income taxes	7.37	(0.19)	3.87	2.30	2.41	3.06	(2.68)
Net Earnings	10.45	10.70	5.33	5.50	8.21	4.93	12.04
Drilling Results							
Gross	23	7	28	18	28	5	10
Net – natural gas	8.0	6.0	6.6	12.8	14.9	2.5	6.2
Net – crude oil	6.0	-	4.0	2.0	2.4	2.0	0.0
Success Rate (percent)	75	86	87	88	79	83	100

CORPORATE INFORMATION

DIRECTORS

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

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

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

Frederic C. Coles ⁽¹⁾⁽²⁾⁽⁴⁾
Independent Businessman
Calgary, Alberta

Howard Crone ⁽²⁾⁽⁴⁾
Independent Businessman
Calgary, Alberta

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

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

- ⁽¹⁾ Member of Audit Committee
- ⁽²⁾ Member of Reserve Committee
- ⁽³⁾ Member of Compensation Committee
- ⁽⁴⁾ 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
Website: www.progressenergy.com

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

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
or toll free at 1-866-216-2150
(in Canada only)
ir@progressenergy.com

Visit our website at
www.progressenergy.com