



# Quarterly Report to Shareholders

For the six months ended June 30, 2011



## Progress Announces Second Quarter Results

Joint Venture validates North Montney as a globally competitive asset  
Emerging light oil play in the Deep Basin

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>FINANCIAL HIGHLIGHTS</b>				
<b>Income Statement</b> (\$ thousands, except per share amounts)				
Petroleum and natural gas revenue	117,340	115,859	234,455	229,330
Cash flow <sup>1</sup>	54,618	51,215	117,940	98,018
Per share – diluted	0.24	0.24	0.52	0.52
Cash dividends declared <sup>2</sup>	23,184	21,945	46,271	43,360
Per share	0.10	0.10	0.20	0.20
<b>Balance Sheet</b> (\$ thousands)				
Working capital deficiency (surplus)	14,209	20,424	14,209	20,424
Bank debt	0	178,384	0	178,384
Convertible debentures	424,761	245,405	424,761	245,405
Total debt	438,970	444,213	438,970	444,213
Capital expenditures	46,037	38,261	186,377	159,034
Asset acquisition	-	(616)	-	387,087
Property dispositions	(18,316)	(44,473)	(35,344)	(44,473)
<b>OPERATIONAL HIGHLIGHTS</b>				
<b>Average Daily Production</b>				
Natural gas (mcf/d)	209,202	226,898	221,278	203,078
Crude oil (bbls/d)	2,122	2,014	2,078	1,914
Natural gas liquids (bbls/d)	3,747	3,690	3,579	3,559
Total daily production (boe/d)	40,736	43,520	42,537	39,319
<b>Average Realized Prices</b>				
Natural gas (\$/mcf)	3.91	4.03	3.88	4.57
Crude oil (\$/bbl)	99.21	72.97	91.27	74.09
Natural gas liquids (\$/bbl)	66.57	56.40	67.18	54.62
<b>Wells Drilled, Net</b>	18	27	24	28

(1) Represents cash flow from operating activities before changes in non-cash working capital.

(2) The dividends declared include distributions and dividends that grantees are entitled to on the vesting of the Share Unit Plan, the Long Term Incentive Plan and the Performance Unit Incentive Plan.

Progress Energy Resources Corp. (“Progress” or the “Company”) announced results for the second quarter of 2011 (the “Quarter”) which are consistent with the Company’s guidance. On June 2, 2011, Progress’ joint venture process came to fruition with the signing of a binding framework agreement with PETRONAS to form both an upstream North Montney Joint Venture and a downstream LNG Export Joint Venture.

“The agreement we signed with PETRONAS during the Quarter represents a transforming transaction for Progress and its shareholders,” said Michael Culbert, President and Chief Executive Officer of Progress. “This partnership, with one of the leading energy and LNG companies in the world, will position us to unlock the significant value of our North Montney assets.”

## Highlights

- On June 2, 2011 executed a CDN\$1.07 billion binding framework agreement to create a strategic partnership with the Malaysian national oil company, PETRONAS;
- To date, Progress has drilled three horizontal Dunvegan light oil wells in the Deep Basin with first month rates averaging 300 boe per day per well;
- Produced 40,736 boe per day, which includes the impact of the scheduled plant turnaround at the McMahon gas processing plant;
- Generated cash flow of \$54.6 million in the Quarter or \$0.24 per share, diluted;
- Drilled a total of 3 wells (net 1.8), all in the Foothills of northeast British Columbia at Town South, Kobes and Nig and completed two wells drilled in the first quarter; one in the Deep Basin and one in the Blueberry area of the Foothills;
- As at June 30, 2011, Progress was undrawn on its \$650 million covenant-based credit facility;
- Maintained the second quarter dividend at \$0.10 per common share and declared a third quarter dividend of \$0.10 per common share.

## Emerging Deep Basin Opportunity - Dunvegan Light Oil Play

Progress has drilled and completed three horizontal, 100-percent working interest Dunvegan oil wells in the Deep Basin since the fourth quarter of 2010. The first well, a 2,750 meter test, produced an average of 250 boe per day of 40° API light oil over a 30 day test period and is still producing over 100 boe per day with no water after seven months of operation. Progress’ second well expanded the play 39 kilometers to the northwest from the original test. This well, post frac, produced an average of 355 boe per day over a 30 day test period and continues to produce over 300 boe per day after three months of production. The Company’s third test was recently placed on production and is expected to average 300 boe per day for the first month of production.

Assuming four wells per section, Progress has identified more than fifty Dunvegan horizontal follow-up locations on its acreage position where the Company has deeper natural gas production. In addition, the Company is evaluating another 20 net prospective sections of land within the Deep Basin. The Dunvegan formation is a pervasive package of stacked marine and fluvial Cretaceous sands ranging in thickness from one meter units to over 25 meters of reservoir. Detailed in-house geologic mapping has illustrated several productive fairways across the Company’s lands where it has previously drilled deeper gas tests. A further three wells, at an all-in cost of \$4 million per well, are planned to be drilled in 2011 with the potential to accelerate the program in 2012.

In total, Progress drilled 11 wells (10.3 net) in the Deep Basin in the first half of 2011, with five wells being completed in the first quarter and one additional well being completed in the Quarter. The remaining wells are to be completed during the third quarter. Progress expects to drill a total of six wells in the Gold Creek, Wapiti and Elmworth areas over the remainder of 2011.

Progress holds a material land position covering approximately 280,000 net acres in the Deep Basin of northwest Alberta. Given the large and contiguous nature of the land base, the Company is able to test play concepts, including liquids-rich gas plays and light oil plays, and with success can quickly establish a meaningful position at lower cost than industry competitors. Progress has the proven expertise in unlocking new play types such as the Nikanassin formation for which the Company co-developed a slick-oil completion technique that is now widely used in the industry.

## **PETRONAS Strategic Partnership**

During the Quarter, Progress executed a binding framework agreement to create a strategic partnership with the Malaysian national oil company, PETRONAS, to develop a portion of Progress' Montney assets in the Foothills of northeast British Columbia. Progress will sell 50 percent of its working interest in its Altares, Lily, and Kahta properties (the "North Montney Joint Venture") to PETRONAS for CDN\$1.07 billion in cash and carried interest, as well as explore opportunities to develop liquefied natural gas (LNG) export capacity in British Columbia. Under the terms of the framework agreement, PETRONAS will pay 25 percent of the total consideration (CDN\$267.5 million) in cash at closing and 75 percent of the total consideration in the form of a capital carry whereby PETRONAS will pay 75 percent of Progress' share of future capital expenditures in the North Montney Joint Venture over the next five years to a total of CDN\$802.5 million. The transaction is expected to close during the third quarter of 2011.

## **Montney Program Update**

Progress has built the industry's largest Montney land position at over 1,250 net sections, or approximately 900,000 net acres, spanning 560 kilometers from northwest Alberta to northeast British Columbia. The primary focus of the Company's Montney program remains in the Foothills of northeast British Columbia where Progress holds approximately 700,000 net acres of largely contiguous Montney rights. Progress continues to pursue the goal set out in November 2010 of doubling its production base over the next five years by developing multiple 50 mmcf per day development pods. Approximately 75 percent, of the Company's capital spending in 2011 will be directed towards the Montney. Drilling plans will be focused on Progress' core development pods for the remainder of 2011, including 17 horizontal and two vertical wells.

At the Town South pod development (100 percent working interest), Progress drilled one horizontal well targeting the middle Montney in the Quarter. Town South is Progress' most developed pod to date, with 16 horizontal wells drilled since the third quarter of 2010.

At the Kobes pod development (30 percent working interest), one partner horizontal well was drilled in the Quarter and will be completed in the third quarter. The well was drilled in the southern area of the Kobes development, which is partner operated, while Progress operates the northern portion. The Kobes pod has proven to have among the strongest initial production rates in the entire Montney fairway.

At the Nig exploration block (50 percent working interest), over 25 kilometers East of Town, a partner-operated Montney well was drilled in the Quarter. The well flowed up tubing at 4.2 mmcf per day and is currently shut-in for pressure build-up. Liquids production is expected to be 25 bbls per mmcf.

## **Program Funding**

In the first half of 2011 Progress has taken considerable steps to ensure that the Company can fund its capital program in the near and long term. During the first four months of 2011, the Company divested of non-core assets with associated production of approximately 800 boe per day for proceeds of approximately \$35 million. Upon closing of the transaction, the upfront cash proceeds from the PETRONAS strategic partnership totaling \$267.5 million will provide Progress with an immediate source funding. Additionally, Progress is undrawn on its new \$650 million covenant based credit facility which was established in the second quarter of 2011.

## Financial Strength

Cash flow for the Quarter was \$54.6 million or \$0.24 per share, diluted. Capital investment was \$46 million. As at June 30, 2011, the Company was undrawn on its \$650 million revolving credit facility. Debt-to-total capitalization as at June 30, 2011 was 13 percent.

On April 29, 2011 the Company amended and restated its bank credit facility to be a covenant-based facility rather than a borrowing base facility. This facility is a 3-year extendible revolving secured facility in the amount of \$650 million from a syndicate of lenders with an initial maturity date of April 29, 2014. As Progress continues to grow its production, reserves and cash flow with the objective of doubling the size of the Company in the next five years, this new facility will provide more certainty and flexibility to fund the Company's growth program.

Progress' average gas price in the Quarter was 3.86 per thousand cubic feet ("mcf"), including the impact of the Company's hedging program. The Company's high heat content gas stream achieves a premium to AECO prices. Royalty rates averaged 13.8 percent in the Quarter as a result of lower natural gas prices and the impact of higher royalty incentives. Operating costs averaged \$5.75 per boe, or \$0.96 per mcf, in the Quarter reflecting the Company's continued focus on operational efficiencies and maximization of volumes through existing facilities and includes the impact associated with the planned outage at the McMahon gas processing facility.

In the first half of 2011, Progress entered into a series of hedges on a portion of its natural gas production buying puts on 30,000 gigajoule ("GJ") per day at a net floor of \$3.43 per GJ. The Company now has 60,000 GJ per day or approximately 22 percent of its natural gas production hedged at a net floor of approximately \$3.41 per GJ or approximately \$3.90 per mcf, based on Progress' high heat content gas, for the period from May 1, 2011 to October 31, 2011. The Company also entered into a series of AECO basis swaps on 40,000 million British Thermal Units ("mmbtu") per day for 2011 at a net differential of US\$0.50 per mmbtu and on 40,000 mmbtu per day for 2012 at a net differential of US\$0.62 per mmbtu.

## Third Quarter Dividend and Dividend Reinvestment Program

The Board of Directors of Progress today announced that the third quarter eligible dividend will be maintained at \$0.10 per share. The eligible dividend will be payable on October 17, 2011 to common shareholders of record as of September 30, 2011. The ex-dividend date is expected to be September 28, 2011. Based on the July 27, 2011 closing share price on the Toronto Stock Exchange of \$13.46, this represents an annualized yield of approximately three percent. The amount of future cash dividends, if any, is subject to the discretion of the Progress Board of Directors.

Progress has a dividend reinvestment plan (the "DRIP") that allows eligible shareholders of Progress to direct that their cash dividends be reinvested in additional common shares which, when issued from treasury, will be issued at 95 percent of the Average Market Price (as defined in the DRIP) on the applicable dividend payment date. A registered shareholder who wishes to enroll in the DRIP may do so by contacting Computershare Trust Company of Canada, the Plan Agent. Beneficial shareholders who wish to participate in the DRIP should contact the broker or other nominee through which their common shares are held to provide appropriate enrollment instructions and to ensure any deadlines or other requirements that such broker or nominee may impose or be subject to are met.

## Outlook

Our 2011 capital program has been established at \$350 million and is expected to result in year-over-year production growth of approximately 13 percent. Production is projected to exit 2011 at between 50,000 and 52,000 boe per day, before the impact of dispositions. We have a current productive capability of approximately 45,000 boe per day .

The focus of our capital program for the remainder of the year will be the continued advancement of our highly economic Montney pod developments at Town South, Town North, Gundy and Kobes. Additionally, activity on our North Montney Joint Venture lands in the Altares, Lily and Kahta areas will commence upon closing of the strategic partnership in the third quarter of 2011. We will continue to take advantage of the factors that make the North Montney attractive; the natural gas we produce is sweet and therefore does not require expensive sour gas processing; we attract a deep drilling royalty credit of approximately \$2.1 million per well; and, we produce approximately 20 barrels per million cubic feet of high-value natural gas liquids. Along with our experience in the area, evolving drilling and completions technologies and strong initial production rates and recoveries, we are well positioned to deliver value for shareholders.

Natural gas prices weakened through the second quarter of 2011, a period when demand is typically low due to moderate temperatures; however heat in early June demonstrated that non-normal weather has the ability to significantly increase prices. We remain optimistic about the long-term prospects for natural gas in North America and increasingly view the natural gas market as a global, rather than regional, marketplace. As demonstrated by our LNG Export Joint Venture with PETRONAS, the resource potential of northeast British Columbia is globally recognized and supply from a stable OECD country is highly prized by Asian consumers. Momentum is building for the large scale development of LNG facilities on the West Coast, which will enable Progress to target more attractive markets.

Progress is well positioned to execute on its growth plans. We have a strong balance sheet with no bank debt as at the end of the Quarter, an undrawn credit facility and expect to receive an upfront CDN\$267.5 million cash payment upon closing of our strategic partnership with PETRONAS. These financial levers provide immediate and ongoing funding for our growth strategy. Non-core asset dispositions and the standby equity financing component of our strategic partnership with PETRONAS provide further support in the long term.

## Consolidated Financial Statements and MD&A

Second Quarter 2011 Consolidated Financial Statements and Notes to the Consolidated Financial Statements and Management's Discussion and Analysis for Progress Energy Resources Corp. have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) under Progress Energy Resources Corp. and can also be accessed on the Company's website at [www.progressenergy.com](http://www.progressenergy.com).

Progress is a Calgary based, mid-size energy Company primarily focused on natural gas exploration, development and production in northwest Alberta and northeast British Columbia. Common shares of Progress are listed on the Toronto Stock Exchange under the symbol PRQ.

### **For further information:**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis (“MD&A”) of financial results is dated July 28, 2011 and is to be read in conjunction with the accompanying unaudited interim consolidated financial statements and related notes for the period ended June 30, 2011 of Progress Energy Resources Corp. (“Progress” or the “Company”) and the audited consolidated financial statements and related notes and MD&A for the year ended December 31, 2010. The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Previously the Company prepared its 2010 interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles (“previous GAAP”). The adoption of IFRS has not had an impact on the Company’s operations, strategic decisions or cash flow from operations before changes in non-cash working capital. The reporting and the measurement currency is the Canadian dollar.

### Description of Business

Progress is a Calgary based, natural gas focused Company. The principal undertaking of the Company is to explore for, develop and hold interests in petroleum and natural gas properties. Primary operating regions include the Deep Basin of northwest Alberta and the northeast British Columbia Foothills. The common shares of the Company trade on the Toronto Stock Exchange (“TSX”) under the symbol PRQ. The 6.25 percent, 5.25 percent and 5.75 percent convertible unsecured subordinated debentures (the “Debentures”) trade on the TSX under the symbols PRQ.DB.A, PRQ.DB.B, and PRQ.DB.C, respectively.

### NORTH MONTNEY UPSTREAM JOINT VENTURE

On June 2, 2011 Progress announced it had executed a binding framework agreement with the Malaysian national oil company, PETRONAS, to develop Progress’ Montney shale assets in the Altares, Lily, and Kahta areas in the Foothills of northeast British Columbia. Under the proposed arrangement, Progress will sell 50 percent of its working interest in these areas to PETRONAS, approximately 75,000 net acres of undeveloped land representing approximately nine percent of Progress’ total Montney land holdings. Progress expects to receive \$267.5 million in cash on the closing of the transaction and an additional \$802.5 million over the next five years in the form of a capital carry whereby PETRONAS would pay 75 percent of Progress’ share of future capital expenditures in the North Montney Upstream Joint Venture (the “Upstream Joint Venture”) for a total consideration of \$1.07 billion. Progress would be the operator of the Upstream Joint Venture which would be comprised of approximately 150,000 total net acres of land, including both Progress’ and PETRONAS’ ownership share of the lands. The transaction is expected to close in the third quarter of 2011.

In addition to the Upstream Joint Venture, PETRONAS and Progress expect to establish a liquefied natural gas (“LNG”) export joint venture (the “LNG Joint Venture”) to be 80 percent and 20 percent owned, respectively. The LNG Joint Venture would initiate a feasibility study to evaluate building and operating a new LNG export facility on the west coast of British Columbia. PETRONAS would be the operator of this facility and PETRONAS and Progress would jointly market the LNG utilizing PETRONAS’ well-established and extensive network of customers in the largest LNG global markets.

### OPERATING SUMMARY

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company’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, general economic conditions and changes in the Canadian/United States (“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 (“bbl”) 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 wellhead.

#### Production

	Three Months Ended June 30		Six Months Ended June 30		Change
	2011	2010	2011	2010	
<b>Average Daily Production</b>					
Natural gas ( <i>mcf/d</i> )	209,202	226,898	221,278	203,078	9%
Crude oil ( <i>bbls/d</i> )	2,122	2,014	2,078	1,914	9%
Natural gas liquids ( <i>bbls/d</i> )	3,747	3,690	3,579	3,559	1%
<b>Total daily production (<i>boe/d</i>)</b>	<b>40,736</b>	<b>43,520</b>	<b>42,537</b>	<b>39,319</b>	<b>8%</b>
Sulphur sales ( <i>tons/d</i> )	119	76	72	98	(27%)

Progress’ production for the three months ended June 30, 2011 (the “Quarter”) averaged 40,736 boe per day consisting of 209,202 mcf per day of natural gas, 2,122 bbls per day of crude oil and 3,747 bbls per day of natural gas liquids. Production during the Quarter was six percent lower than the same period in 2010 of 43,520 boe per day due to a planned turnaround at the Spectra-owned McMahan gas processing facility (the “McMahan turnaround”). The 15 day McMahan turnaround, which is scheduled every three years, reduced production by approximately 4,000 boe per day for the Quarter. Successful drilling results in 2011 and 2010 more than offset the decrease in production from the dispositions completed in 2011 as described below, as well as the sale of the Company’s Central Alberta properties on June 30, 2010. The Company’s production portfolio for the Quarter was weighted 86 percent to natural gas, five percent to crude oil and nine percent to natural gas liquids.

Natural gas production decreased eight percent to 209,202 mcf per day for the Quarter compared to 226,898 mcf per day for the same period in 2010 due to the McMahan turnaround. Crude oil and natural gas liquids (“NGL”) production for the Quarter of 5,869 bbls per day was three percent higher than the same period in 2010 of 5,704 bbls per day.

Progress undertook an asset disposition program in early 2011 to further focus its asset base in the Deep Basin of northwest Alberta and the Foothills of northeast British Columbia. As a result, on March 31, 2011, the Company disposed of its Two Creek Alberta properties for approximately \$12.7 million (approximately 260 boe per day) and disposed of certain royalty interests in the Copton, Alberta area for approximately \$4.2 million (approximately 60 boe per day). In April 2011, the Company disposed of its Fort St. John Plains North properties for approximately \$12.7 million (approximately 380 boe per day) as well as certain properties in the Copton, Alberta area for approximately \$4.8 million (approximately 115 boe per day).

Year-to-date 2011 production was 42,537 boe per day consisting of 221,278 mcf per day of natural gas, 2,078 bbls per day of crude oil and 3,579 bbls per day of natural gas liquids. This production was eight percent higher than the same period in 2010 of 39,319 boe per day due to the Company’s acquisition of certain northeast British Columbia Foothills assets (the “Foothills Acquisition”) on March 31, 2010 as well as the successful drilling results which more than offset the impact of the McMahan turnaround and dispositions in 2010 and 2011. The Company’s production portfolio for the six months ended June 30, 2011 was weighted 87 percent to natural gas, five percent to crude oil and eight percent to natural gas liquids.

Production is projected to exit 2011 at between 50,000 and 52,000 boe per day, before the impact of the dispositions noted above. The Company has a current productive capability of approximately 45,000 boe per day.

## Production by Region

	Three Months Ended June 30		Six Months Ended June 30		Change
	2011	2010	2011	2010	
<b>Average Daily Production (boe/d)</b>					
Foothills	26,296	23,127	27,172	18,884	44%
Fort St. John Plains	1,165	1,837	1,457	1,921	(24%)
Other	451	594	471	623	(24%)
<b>Total British Columbia</b>	<b>27,912</b>	<b>25,558</b>	<b>29,100</b>	<b>21,428</b>	<b>36%</b>
Deep Basin	12,599	16,195	13,093	16,038	(18%)
Central Alberta	-	1,238	-	1,298	(100%)
Other	225	529	344	555	(38%)
<b>Total Alberta</b>	<b>12,824</b>	<b>17,962</b>	<b>13,437</b>	<b>17,891</b>	<b>(25%)</b>
<b>Total daily production</b>	<b>40,736</b>	<b>43,520</b>	<b>42,537</b>	<b>39,319</b>	<b>8%</b>

Excludes sulphur production

## Pricing

### Natural Gas Markets

Progress' realized natural gas price for the Quarter was \$3.91 per mcf (\$3.40 per gigajoule (“gj”)) compared to \$4.03 per mcf (\$3.51 per gj) for the same period in 2010. The AECO daily index averaged \$3.67 per gj in the Quarter (2010 - \$3.69 per gj), the AECO monthly index averaged of \$3.54 per gj (2010 - \$3.66 per gj) and the Station #2 daily index averaged \$3.40 per gj (2010 - \$3.47 per gj). Progress markets its natural gas at a mix of daily and monthly pricing.

For the six months ended June 30, 2011 Progress' realized natural gas price was \$3.88 per mcf (\$3.36 per gj) compared to \$4.57 per mcf (\$4.00 per gj) for the same period in 2010. During the six months ended June 30, 2011 the AECO daily index averaged \$3.62 per gj (2010 - \$4.19 per gj), the AECO monthly index averaged of \$3.56 per gj (2010 - \$4.37 per gj) and the Station #2 daily index averaged \$3.33 per gj (2010 - \$4.00 per gj).

Although natural gas prices during the Quarter were highly volatile, with Henry Hub trading within the range of \$4.05 to \$4.92 per mmbtu, they ended the Quarter down just 0.9 percent versus the first quarter of 2011. Despite domestic US production reaching a record high in early April, prices rose almost 7 percent in the month due to seasonally cool temperatures in consuming regions. Residential and commercial consumption for heating drove demand in the northeast, rockies and midcontinent regions of the US and cooling demand in the south provided support. A widespread selloff of commodities began a downward trend in prices in early May, with natural gas seeing its biggest one day drop in 19 months as market sentiment turned bearish. Prices remained depressed throughout May, as spring weather conditions were such that demand for both heating and cooling was low. The first major heat event of the year began in late May, as a heat wave spread across the northern US and into eastern Canada. Prices rose 21 percent from May 20<sup>th</sup> to June 9<sup>th</sup>, the peak of the heat wave, to \$4.92 per mmbtu, a 10 month high. Normal weather and increased spare capacity at nuclear facilities led to prices falling consistently in June to end the Quarter at \$4.28 per mmbtu.

The late May/early June heat wave demonstrated that sustained, above-average temperatures have the ability to push prices significantly higher. Despite record US domestic production in the lower 48, storage levels remain nine percent below 2010 levels, a bullish signal that there is demand for the increased supply. In terms of the long term outlook for North American natural gas, the Quarter saw considerable attention paid to the development of LNG export off the west coast of British Columbia from both Canadian producers and Asian consumers.

## Oil Markets

Progress' realized prices for its liquids streams for the Quarter were \$99.21 per bbl (2010 - \$72.97 per bbl) for crude oil and \$66.57 per bbl (2010 - \$56.40 per bbl) for natural gas liquids. For the six months ended June 30, 2011 Progress realized \$91.27 per bbl (2010 - \$74.09 per bbl) for crude oil and \$67.18 per bbl (2010 - \$54.62 per bbl) for natural gas liquids.

Oil prices fell sharply in the Quarter, losing almost 12 percent in the period after reaching a three year high of \$113.93 per bbl in late April. The length and effects of the military campaign in Libya remained unclear, generating volatility and sustaining the geopolitical risk premium in the oil price that had grown throughout the first quarter of 2011. Bearish sentiment crept into the market in early May, as oil fell sharply (approximately 17 percent in five days) in the broader commodity selloff. Fears about further supply disruption in the Mid-East abated and concerns around demand increased, with the International Energy Agency ("IEA") lowering its forecast for global demand and US reporting sluggish domestic demand. Prices traded in the \$97-\$102 per bbl range for the next month, and despite the precipitous drop, prices remained approximately 25 percent higher than 2010. Greek debt concerns began to weigh on oil prices as Greece and the European Union ("EU") struggled to agree on revised bailout terms and worries about contagion in the Eurozone (which consumes 20 percent of the world's oil) were bearish signals for demand. In terms of supply, OPEC failed to agree on increasing its output, but Saudi Arabia signalled it would boost production to meet any perceived supply shortfalls. The IEA also announced that its member states would release 60 million bbls of strategic reserves into the market, the first such release since Hurricane Katrina in 2005.

The hefty risk premium that was added to the price of oil in the wake of the Arab Spring has been significantly reduced, with prices ending the Quarter 11 percent ahead of pre-crisis, after trading as much as 25 to 35 percent higher during most of the Quarter. Supply concerns have eased and recent price movements have focused on economic growth and the associated demand from the major consumers, China, the US and the EU.

## Commodity Prices

	Three Months Ended June 30		Six Months Ended June 30		Change
	2011	2010	2011	2010	
<b>Average Benchmark Prices</b>					
Natural gas – AECO (daily) (\$/gj)	3.67	3.69	3.62	4.19	(14%)
Natural gas – AECO (monthly) (\$/gj)	3.54	3.66	3.56	4.37	(19%)
Natural gas – Station #2 (daily) (\$/gj)	3.40	3.47	3.33	4.00	(17%)
Crude oil – WTI (US\$/bbl)	102.56	78.03	98.33	78.37	25%
Crude oil – Edmonton par price (Cdn\$/bbl)	103.28	75.21	95.52	77.66	23%
Exchange rate (Cdn\$/US\$)	0.9676	1.2076	0.9768	1.0342	(6%)
<b>Average Realized Prices</b>					
Natural gas (\$/mcf)	3.91	4.03	3.88	4.57	(15%)
Crude oil (\$/bbl)	99.21	72.97	91.27	74.09	23%
Natural gas liquids (\$/bbl)	66.57	56.40	67.18	54.62	23%
Sulphur – net (\$/ton)	104.26	39.98	101.06	22.18	356%

## Price Risk Management

The Company, from time to time, may enter into financial contracts for the purpose of protecting its cash flow from the volatility of natural gas prices and Canadian to US foreign exchange rates. For the Quarter, the Company's risk management program had a net realized loss of \$0.9 million (2010 - \$3.9 million gain). For the six months ended June 30, 2011 the Company's risk management program had a net realized gain of \$4.0 million (2010 - \$3.0 million gain).

At June 30, 2011 the fair value of the financial contracts was a liability of \$1.8 million (2010 - \$9.5 million asset). At June 30, 2011 the Company had the following financial contracts outstanding:

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium	Term
Bought Put Option	5,000 gj/d	AECO	\$3.610	\$0.3400	Feb 1/11 to Oct 31/11
Bought Put Option	5,000 gj/d	AECO	\$3.650	\$0.3350	Feb 1/11 to Oct 31/11
Bought Put Option	5,000 gj/d	AECO	\$3.830	\$0.3570	Feb 1/11 to Oct 31/11
Bought Put Option	10,000 gj/d	AECO	\$3.760	\$0.3400	May 1/11 to Dec 31/11
Bought Put Option	10,000 gj/d	AECO	\$3.785	\$0.3475	May 1/11 to Dec 31/11
Bought Put Option	10,000 gj/d	AECO	\$3.780	\$0.3500	May 1/11 to Dec 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Cost/Premium	Term
Swap – call spread	5,000 gj/d	AECO	\$3.60 - \$4.60	\$0.26	Feb 1/11 to Oct 31/11
Swap – call spread	5,000 gj/d	AECO	\$3.65 - \$4.65	\$0.26	Feb 1/11 to Oct 31/11
Swap – call spread	5,000 gj/d	AECO	\$3.81 - \$4.81	\$0.26	Feb 1/11 to Oct 31/11

Contracts	Volume	Pricing Point	Differential	Term
Swap – basis hedge	30,000 mmbtu/d	Nymex	(\$0.5000)	May 1/11 to Dec 31/11
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.4950)	May 1/11 to Dec 31/11
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6300)	Jan 1/12 to Dec 31/12
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6250)	Jan 1/12 to Dec 31/12
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6175)	Jan 1/12 to Dec 31/12
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6150)	Jan 1/12 to Dec 31/12

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Sold Calls	10,000 gj/d	AECO	\$7.575	Jan 1/11 to Dec 31/11
Sold Calls	10,000 gj/d	AECO	\$7.500	Jan 1/11 to Dec 31/11

The change in the fair value of the financial contracts for the three and six months ended June 30, 2011 was a loss of \$1.7 million and a loss of \$5.8 million, respectively (2010 - \$7.9 million loss and \$6.6 million gain) due primarily to the expiry of a put option contract on March 31, 2011 and higher future natural gas prices.

## Revenue

For the Quarter, petroleum and natural gas revenue of \$117.3 million was slightly higher than the same period in 2010 of \$115.9 as higher crude oil and NGL prices more than offset the decrease in production and lower natural gas prices. Production revenue for the Quarter consisted of \$74.4 million from natural gas sales, \$19.2 million from crude oil sales, \$22.7 million from the sale of natural gas liquids and \$1.1 million from the sale of sulphur.

For the six months ended June 30, 2011, revenues of \$234.5 million were higher than the same period in 2010 of \$229.3 million as a result of both higher production and higher crude oil and NGL prices.

(\$ thousands)	Three Months Ended June 30		Six Months Ended June 30		Change
	2011	2010	2011	2010	
Natural gas sales	74,350	83,269	155,297	168,115	(8%)
Crude oil sales	19,159	13,374	34,327	25,659	34%
Natural gas liquids sales	22,702	18,940	43,514	35,185	24%
Sulphur sales (net)	1,129	276	1,317	371	255%
<b>Petroleum and natural gas revenue</b>	<b>117,340</b>	<b>115,859</b>	<b>234,455</b>	<b>229,330</b>	<b>2%</b>

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Sulphur	Total
Three months ended June 30, 2010 petroleum and natural gas revenue	83,269	32,314	276	115,859
Price variance	(2,425)	8,612	697	6,884
Production variance	(6,494)	935	156	(5,403)
<b>Three months ended June 30, 2011 petroleum and natural gas revenue</b>	<b>74,350</b>	<b>41,861</b>	<b>1,129</b>	<b>117,340</b>

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Sulphur	Total
Six months ended June 30, 2010 petroleum and natural gas revenue	168,115	60,844	371	229,330
Price variance	(27,885)	14,951	1,044	(11,890)
Production variance	15,067	2,046	(98)	17,015
<b>Six months ended June 30, 2011 petroleum and natural gas revenue</b>	<b>155,297</b>	<b>77,841</b>	<b>1,317</b>	<b>234,455</b>

## Royalties

For the Quarter, royalties decreased five percent to \$16.1 million from \$16.9 million for the same period in 2010 due to higher incentives received during the Quarter which are described below. Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The Company's average royalty rate for the Quarter was 13.8 percent compared to 14.6 percent in 2010. The decrease in the royalty rate is due to the incentives described below and lower natural gas prices.

For the six months ended June 30, 2011 royalties decreased 22 percent to \$28.7 million compared to \$36.8 million for the same period in 2010. The Company's average royalty rate was 12.2 percent compared to 16.0 percent in 2010 due to the incentives described below and lower natural gas prices.

Management anticipates based on current commodity prices and royalty regimes, the average royalty rate for 2011 will be approximately 13 percent of petroleum and natural gas revenue, which is lower than previous guidance of 14 percent.

Progress' operations are in the provinces of Alberta and British Columbia, both of which have implemented incentives for the energy sector in response to the economic slowdown and to enhance their competitive business climate.

## *Alberta Royalties*

In regards to Progress' operations, the current major incentives in Alberta are:

### *Five percent royalty rate on first year of production*

The Alberta government has implemented a five percent royalty rate on the first year of production on new natural gas and conventional oil wells up to a maximum 500,000 mcf of natural gas or 50,000 bbls of crude oil. This results in a lower royalty expense for Progress on its new wells.

### *Deep drilling credit*

The Alberta government revised its deep drilling credit to wells deeper than 2,000 metres, compared to 2,500 metres previously. The deep drilling credit is \$625 per metre on wells below 2,000 metres to 3,500 metres. A typical Progress Deep Basin well would qualify for approximately \$0.2 million of deep drilling credits. The credit is collected through a reduction to the royalties paid on that well but cannot reduce the royalty rate below five percent. This credit is treated as a reduction to royalty expense.

### *Drilling royalty credit*

A drilling royalty credit was implemented for new natural gas or conventional oil wells of up to \$200 per metre drilled on crown land for wells spud on or after April 1, 2009 to March 31, 2011. As at June 30, 2011 approximately \$22.7 million in Alberta drilling credits have been earned and recognized as a reduction to capital spending under this program.

Other recent changes to the Alberta royalty regime include that the maximum royalty rate for natural gas at higher price levels will be 36 percent as opposed to 50 percent that was established previously.

## *British Columbia Royalties*

In regards to Progress' operations, the current major incentives in British Columbia are:

### *Two percent royalty on first year of production*

The two percent royalty relief program is a one year, two percent royalty rate for all natural gas wells drilled in a 10 month window, spud on or after September 1, 2009 to June 30, 2010. The two percent royalty will apply to the first 12 months of production and production must commence before December 31, 2010. This results in a lower royalty expense for Progress on its new wells.

### *Deep royalty credit program*

The current formula based deep royalty credit program includes horizontal wells drilled between 1,900 and 2,300 metres. The program has no expiration date. To date Progress has earned an average of \$2.1 million per well of deep royalty credits on each of its Montney horizontal wells. As at June 30, 2011 approximately \$7.7 million in deep royalty credits were offset against 2011 royalty expense (\$3.4 million for the year ended 2010) with \$51.6 million remaining to be recognized as a future reduction to royalty expense. The two percent royalty relief program and the deep royalty credit program will co-exist but a company will only benefit from one program at a time. The deep royalty credit will apply first. If it is exhausted before the first 12 months of production, the two percent royalty will be in effect for the remainder of the first 12 months. If the deep royalty credit is not exhausted before the first 12 months, the two percent royalty program will not apply. The deep royalty credit is treated as a reduction to royalty expense.

## Operating Expenses

Operating expenses during the Quarter decreased 17 percent to \$21.3 million from \$25.5 million for the same period in 2010. On a boe basis, operating expenses for the Quarter decreased 11 percent to \$5.75 from \$6.45 in the same period in 2010 primarily as a result of efficiencies realized, drilling operations being focused in low operating cost areas and the sale of high operating expense assets in 2010 and 2011.

For the six months ended June 30, 2011 operating expenses decreased five percent to \$42.8 million compared to \$44.8 million for the same period in 2010. On a boe basis, year-to-date operating expenses decreased 12 percent to \$5.56 compared to \$6.30 for the same period in 2010 as a result of efficiencies realized, growth in low operating cost areas and dispositions of high operating expense assets.

Management anticipates operating expenses for 2011 to average between \$5.50 to \$5.75 per boe, which is lower than the previous guidance of between \$5.75 to \$6.00 per boe.

## Transportation Expenses

Transportation expenses for the Quarter of \$12.6 million were slightly lower than the same period in 2010 of \$12.8 million due to lower production as a result of the McMahon turnaround during the Quarter. For the six months ended June 30, 2011 transportation expenses increased 12 percent to \$25.1 million compared to \$22.4 million for the same period in 2010 due to higher production. On a boe basis, transportation expenses for the Quarter of \$3.41 were five percent higher than the same period in 2010 of \$3.24 and for the six months ended June 30, 2011 transportation expenses of \$3.26 were three percent higher than the same period in 2010 of \$3.15. The slight increase is due to a higher proportion of the Company's production coming from British Columbia where the Company pays an all-in charge for regulated gathering, processing and transmission fees on much of its production thereby avoiding facility construction. This all-in charge is included in transportation expenses.

Management anticipates transportation expenses for 2011 to average \$3.25 to \$3.40 per boe which is consistent with guidance.

## 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 higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas and oil properties for the three and six months ended June 30, 2011 compared to the same periods in 2010:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>Natural Gas Properties (\$/mcf)</b>				
Sales price	4.80	4.59	4.69	5.07
Realized gain (loss) on financial instruments	(0.04)	0.17	0.09	0.07
Royalties	(0.61)	(0.63)	(0.53)	(0.78)
Operating expenses	(0.93)	(1.01)	(0.88)	(0.99)
Transportation expenses	(0.58)	(0.55)	(0.55)	(0.54)
<b>Operating netback – natural gas properties</b>	<b>2.64</b>	<b>2.57</b>	<b>2.82</b>	<b>2.83</b>
<b>Oil Properties (\$/bbl)</b>				
Sales Price	72.88	58.69	75.08	61.27
Royalties	(14.77)	(13.01)	(14.88)	(13.45)
Operating expenses	(8.22)	(13.00)	(11.80)	(11.97)
Transportation expenses	(1.94)	(1.89)	(2.33)	(1.86)
<b>Operating netback – oil properties</b>	<b>47.95</b>	<b>30.79</b>	<b>46.07</b>	<b>33.99</b>
<b>All Properties (\$/boe)</b>				
Sales Price <sup>1</sup>	31.65	29.25	30.45	32.22
Realized gain (loss) on financial instruments	(0.23)	0.97	0.52	0.42
Royalties	(4.35)	(4.27)	(3.72)	(5.17)
Operating expenses	(5.75)	(6.45)	(5.56)	(6.30)
Transportation expenses	(3.41)	(3.24)	(3.26)	(3.15)
<b>Operating netback – all properties</b>	<b>17.91</b>	<b>16.26</b>	<b>18.43</b>	<b>18.02</b>

(1) Includes sulphur net revenue (loss) with no associated production as no conversion exists for tons to boe.

## General and Administrative Expenses

For the Quarter, general and administrative expenses net of overhead recoveries, (“G&A”) decreased six percent to \$3.6 million compared to \$3.8 million for the same period in 2010 due to higher overhead recoveries. For the six months ended June 30, 2011 G&A expenses of \$7.5 million were consistent the same period in 2010 of \$7.4 million. On a boe basis G&A for the Quarter matched the same period in 2010 of \$0.97 while year-to-date 2011 G&A was \$0.97 compared to \$1.04 for the same period in 2010.

The Company capitalized approximately \$0.5 million of G&A during the Quarter (2010 - \$0.5 million) and \$1.3 million for the six months ended June 30, 2011 (2010 - \$0.9 million). These costs represent compensation related to geological and geophysical staff.

Management anticipates G&A expenses to average approximately \$1.00 per boe in 2011 which is consistent with guidance.

## Stock Based Compensation Expenses

### *Stock Options, Restricted Units and Performance Units*

The Company has a stock based compensation plan (the “Plan”) comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both Restricted Unit Awards and Performance Unit Awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The Restricted Unit Awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance Unit Awards are similar to the Restricted Unit Awards however, a performance factor is applied to the grant on the vesting date. Both the Restricted Unit Awards and Performance Unit Awards vest at the end of a three year period and include accumulated dividends paid over the three year period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan prior to 2011 vest one third in each of the second, third and fourth year anniversary dates from the date of grant. Stock options granted in 2011 vest one third in each of the first, second and third year anniversary dates from the date of grant. The options expire in five years from the date of grant.

On January 15, 2009 ProEx Energy Ltd. (“ProEx”) acquired Progress Energy Trust (the “Trust”) and changed its name to Progress Energy Resources Corp. (the “Arrangement”). As a result, grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the Long Term Incentive Component (“LTI”) as well as stock options of ProEx, will continue until their original vesting dates.

### *Long Term Incentive Component of the Trust*

Awards granted under the LTI component of the Trust’s compensation plan will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year.

### *Performance Units of the Trust*

The performance units granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company’s performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust’s executives effective July 2, 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company’s option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

For the Quarter, stock based compensation expenses of \$2.0 million were 45 percent lower than the same period in 2010 of \$3.7 million. On a boe basis, stock based compensation expense for the Quarter was \$0.55 per boe compared to \$0.94 per boe for the same period in 2010. The decrease was due to an adjustment during the Quarter to reduce the anticipated performance factor on the performance units granted in 2008 by the Trust from 1.5 times to 1.375 times. Alternatively, for the same period in 2010, an adjustment was made to increase the anticipated performance factors on the performance units granted in 2007 and 2008 by the Trust from 1.0 to 1.5 times. For the six months ended June 30, 2011 stock based compensation expenses decreased 24 percent to \$4.9 million (\$0.64 per boe) compared to \$6.4 million (\$0.91 per boe) for the same period in 2010 as a result of the performance factor adjustments.

As at June 30, 2011, there were 7,264,734 stock options outstanding. This includes 6,143,367 stock options that were granted under the Stock Option Plan and 1,121,367 stock options granted by ProEx prior to the Arrangement that will continue until their original expiry date or until they are exercised or forfeited.

The following tables summarize the activity for the six months ended June 30, 2011 and the year ended December 31, 2010 for the stock options, Share Unit Plan, performance units of the Trust and the units under the LTI component of the Trust.

Stock Options	Number of options	Weighted average exercise price
Balance, January 1, 2010	5,872,533	11.93
Granted	281,000	12.39
Forfeited	(145,332)	12.39
Expired	(18,000)	15.46
Exercised	(38,334)	11.02
Balance, December 31, 2010	5,951,867	11.93
Granted	1,452,367	12.38
Forfeited	(52,667)	11.98
Expired	(35,833)	14.64
Exercised	(51,000)	12.68
Balance, June 30, 2011	7,264,734	11.79
Exercisable, June 30, 2011	2,595,034	11.90

#### Restricted Units

Balance, January 1, 2010	93,259
Granted	88,265
Settled	(950)
Forfeited	(1,175)
Balance, December 31, 2010	179,399
Settled	(3,612)
Forfeited	(1,800)
Balance, June 30, 2011	173,987

#### Vesting Date

2011	2,325
2012	87,072
2013	84,590
Total	173,987

### Performance Units

Balance, January 1, 2010	259,950
Granted	281,050
Settled	(2,790)
Forfeited	(14,635)
Balance, December 31, 2010	523,575
Forfeited	(7,600)
Balance, June 30, 2011	515,975

Vesting Date	
2011	8,119
2012	247,618
2013	260,238
Total	515,975

Subsequent to the Quarter, on July 4, 2011 10,445 common shares were issued to settle restricted units and performance units that vested under new employee's initial grant vesting terms.

Subsequent to the Quarter, the Company granted 84,450 Restricted Unit Awards and 230,775 Performance Unit Awards.

### Performance Units of the Trust<sup>1</sup>

Balance, January 1, 2010	717,718
Performance factor adjustment <sup>2</sup>	167,639
Settled <sup>2</sup>	(492,027)
Forfeited	(11,945)
Balance, December 31, 2010	381,385
Performance factor adjustment <sup>2</sup>	10,055
Settled <sup>2</sup>	(36,869)
Forfeited	(4,507)
Balance, June 30, 2011	350,064

Vesting Date	
2011 <sup>2</sup>	350,064
Total	350,064

- (1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (2) For 2010 the performance units were settled at a performance factor of 1.5 times resulting in the issuance of an additional 167,639 common shares. On June 22, 2011 the performance units granted in 2008 to the directors were settled at a performance factor of 1.375 times. Subsequent to the Quarter, the performance units granted to the employees and executives were settled at a performance factor of 1.375 times, resulting in the issuance of 484,827 common shares.

Units under LTI Component <sup>1</sup>	
Balance, January 1, 2010	100,956
Additional grant <sup>2</sup>	18,189
Settled	(104,348)
Forfeited	(1,837)
Balance, December 31, 2010	12,960
Additional grant <sup>2</sup>	1,643
Settled	(8,209)
Forfeited	(1,000)
Balance, June 30, 2011	5,394
<b>Vesting Date</b>	
2011	5,394
Total <sup>2</sup>	5,394

- (1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (2) An additional 15 percent grant will be paid to LTI holders if a holder holds the shares they receive on the second anniversary date for one additional year. This would result in an additional 1,349 common shares being issued by the Company.

### Interest and Finance Expense

Interest and finance expense is comprised of the following:

(\$ thousands)	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Interest on bank debt	1,125	3,035	4,286	7,898
Interest on Debentures	6,647	4,727	11,148	9,395
Total interest and financing expense	7,772	7,762	15,434	17,293
Interest and finance expense (\$/boe)	2.10	1.96	2.00	2.43

Interest and finance expense during the Quarter was consistent with the same period in 2010 of \$7.8 million while year-to-date interest and financing expense decreased 11 percent to \$15.4 million compared to \$17.3 million for the same period in 2010. For the Quarter, interest on bank debt decreased 63 percent to \$1.1 million, which included \$0.9 million of standby fees on the undrawn portion of the credit facility, compared to \$3.0 million for the same period in 2010. The decrease was due to lower average bank debt during the Quarter. The lower average bank debt was the result of a financing completed on March 7, 2011 which included \$200.0 million principal amount of 5.75 percent convertible unsecured subordinated debentures (the “5.75 percent debentures”) and the issuance of 14,400,000 common shares for gross proceeds of \$200.2 million (refer to *Liquidity and Capital Resources* below). The net proceeds were initially used to repay outstanding bank debt thereby freeing up borrowing capacity to fund a portion of Progress’ expanded capital program (refer to *Capital Expenditures* below). For the Quarter, interest on Debentures increased 41 percent as a result of the issuance of the 5.75 percent debentures.

The decrease in interest and financing expense for the year-to-date 2011 was a result of lower average bank debt, partially offset by an increase in interest on Debentures due to the issuance of the 5.75 percent debentures.

## Depletion and Depreciation

As a result of the conversion to IFRS, Progress now depletes its property, plant and equipment based on its proved plus probable reserves as opposed to proved reserves that were used under the previous GAAP. Plant turnarounds and major overhauls are depreciated over four years. The carrying value of undeveloped land in exploration and evaluation assets that expires is charged to depletion and depreciation expense.

For the Quarter, depletion and depreciation (“D&D”) expense decreased 13 percent to \$52.0 million compared to \$59.6 million for the same period in 2010. The decrease was due to lower production in the Quarter as a result of the McMahon turnaround and the impact of an impairment charge of \$119.9 million recognized in the fourth quarter of 2010 due to the impact of decreasing natural gas prices on the fair value of certain cash generating units (“CGUs”) of the Company. For the six months ended June 30, 2011 D&D expense decreased 14 percent to \$110.3 million compared to \$128.7 million for the same period in 2010. In the first quarter of 2010, D&D expense included an impairment charge of \$19.7 million. On a boe basis, D&D expense for the Quarter was \$14.03 compared to \$15.05 for the same period in 2010 and for the six months ended June 30, 2011 was \$14.33 compared to \$18.09 for the same period in 2010.

## Taxes

The provision for deferred income taxes for the Quarter was a recovery of \$2.7 million compared to a recovery of \$6.9 million in same period in 2010. The lower recovery for the Quarter was the result of a lower pretax loss as compared to the same period in 2010. For the six months ended June 30, 2011 the provision for deferred income taxes was a recovery of \$1.9 million compared to a recovery of \$9.2 million for the same period in 2010 due to a lower pre-tax loss, primarily due to the first quarter of 2010 including an impairment charge of \$19.7 million as a result of the impact of decreasing natural gas prices on the fair value of certain CGU’s.

Estimated total tax pool balances as at June 30, 2011 is approximately \$2.3 billion.

## Net Loss and Comprehensive Loss

The net loss and comprehensive loss for the Quarter of \$11.4 million was lower than the net loss of \$22.8 million for the same period in 2010. The lower net loss for the Quarter was primarily due to the second quarter of 2010 incurring a higher unrealized loss of financial instruments, higher depletion expense and a higher loss on divestitures than for the Quarter. The basic and diluted net loss for the Quarter was \$0.05 per share and for the same period in 2010 the basic and diluted net loss was \$0.11 per share.

The net loss and comprehensive loss for the six months ended June 30, 2011 decreased 85 percent to \$9.8 million compared to a net loss and comprehensive loss of \$67.5 million for the same period in 2010. The decrease was primarily due to 2010 incurring a \$19.7 million impairment charge to D&D expense due to the impact of decreasing natural gas prices on the fair value of certain CGUs as well as an impairment charge of \$34.2 million related to a decrease in the fair value of goodwill. The basic and diluted net loss for the year-to-date 2011 was \$0.04 per share and for the same period in 2010 the basic and diluted net loss was \$0.36 per share.

## Dividends

Since January 15, 2009, Progress has declared quarterly cash dividends of \$0.10 per common share, including the Quarter. The total amount of dividends for the Quarter is approximately \$23.1 million (2010 - \$21.3 million), excluding dividends accrued for certain share based compensation grants. Progress has a dividend reinvestment plan (“DRIP”) whereby common shareholders can elect to receive their dividend in shares. The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. On July 15, 2011 the Company issued 611,436 common shares in payment of \$7.9 million of dividends for shareholders that elected to participate in the DRIP. Progress intends to pay quarterly dividends, however these dividends are not guaranteed.

Subsequent to the Quarter the Board of Directors declared that the 2011 third quarter dividend will be maintained at \$0.10 per share. The dividend will be payable on October 17, 2011 to common shareholders of record as of September 30, 2011.

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

(\$ thousands, except per share amounts)	Three Months Ended							
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
	2011	2011	2010	2010	2010	2010	2009	2009
Petroleum and natural gas revenue <sup>2</sup>	117,340	117,115	107,957	105,305	115,859	113,471	86,145	64,421
Net earnings (loss) <sup>2</sup>	(11,436)	1,626	(104,184)	(7,644)	(22,832)	(44,708)	(20,075)	(26,877)
Per share basic	(0.05)	0.01	(0.49)	(0.04)	(0.11)	(0.27)	(0.12)	(0.16)
Per share diluted	(0.05)	0.01	(0.49)	(0.04)	(0.11)	(0.27)	(0.12)	(0.16)

- (1) The 2010 and 2011 quarterly results have been adjusted to conform to IFRS. The quarterly results for 2009 have not been adjusted and reflect the results in accordance with the previous GAAP.
- (2) Throughout 2009, lower commodity prices due to the global economic slowdown resulted in a net loss for each quarter in 2009. Petroleum and natural gas revenue for the first quarter of 2010 increased over the fourth quarter of 2009 due to higher production and higher crude oil and NGL prices. The higher net loss for the first quarter of 2010 was the result of a \$19.7 million charge relating to the impairment of property, plant and equipment and a \$34.2 million impairment to goodwill, both due to the impact of decreasing natural gas prices. Petroleum and natural gas revenue for the second quarter of 2010 increased slightly from the first quarter of 2010 due to higher production as a result of the Foothills Acquisition, however this was largely offset by lower commodity prices. The net loss for the second quarter of 2010 was due to higher D&D expense due to the Foothills Acquisition, a \$9.6 million loss on the sale of its Central Alberta properties and an unrealized loss on financial instruments of \$7.9 million. For the third quarter of 2010, petroleum and natural gas revenue decreased from the second quarter of 2010 as a result of lower commodity prices through the summer season. The net loss was lower than the previous quarter due to an unrealized gain on financial instruments of \$1.1 million compared to a loss of \$7.9 million in the previous quarter. Revenues for the fourth quarter of 2010 were slightly higher than the third quarter due to higher crude oil and NGL prices. The higher net loss was due to an impairment charge to property, plant and equipment of \$119.9 million as a result of decreasing future natural gas prices. Revenues for the first quarter of 2011 were higher than the fourth quarter of 2010 due to both higher production and slightly higher natural gas prices. Net earnings were higher primarily due to the \$119.9 million impairment charge recognized in the fourth quarter of 2010. During the Quarter, production was seven percent lower than the first quarter of 2011 due to a planned 15 day turnaround at the Spectra McMahon gas processing facility, however, higher crude oil prices and slightly higher natural gas prices, resulted in slightly higher revenues for the Quarter. The higher net loss for the Quarter as compared to the previous quarter was primarily due to a \$6.6 million loss on divestitures for the Quarter, while the previous quarter had a \$5.2 million net gain on divestitures.

## Capital Expenditures

During the Quarter, the Company invested \$46.0 million in total capital expenditures, which includes capital expenditures on exploration and evaluation assets and property, plant and equipment, compared to \$38.3 million in the same period in 2010. For the six months ended June 30, 2011, the Company invested \$186.4 million compared to \$159.0 million for the same period in 2010.

(\$ thousands)	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Land acquisitions and retention	7,014	11,374	8,829	18,830
Geological and geophysical	1,396	1,422	7,472	7,253
Drilling and completions	22,309	15,094	128,403	105,054
Equipping and facilities	13,600	10,255	39,757	31,681
Turnarounds and overhauls	1,405	-	1,405	-
Corporate assets	110	91	159	224
Exploration and development capital	45,834	38,236	186,025	163,042
Net property acquisitions (dispositions)	203	25	352	(4,008)
<b>Total capital expenditures</b>	<b>46,037</b>	<b>38,261</b>	<b>186,377</b>	<b>159,034</b>
Foothills Acquisition	-	(616)	-	387,087
Central Alberta Disposition	-	(44,473)	-	(44,473)
Property Dispositions	(18,316)	-	(35,344)	-
Total investing activities (before changes in non-cash working capital)	27,721	(6,828)	151,033	501,648

During the Quarter, the Company drilled 3 gross wells (1.8 net) in the Foothills region. For the six months ended June 30, 2011, the Company drilled 27 gross wells (24.5 net), including 16 gross wells (14.2 net) in the Foothills region and 11 gross wells (10.3 net) in the Deep Basin region. The drilling in the Foothills region included 11 horizontal and two vertical Montney wells drilled in four of the Company's six Montney development pods at Town South, Town North, Kobes and Gundy.

At the Town South pod development (100 percent working interest), Progress drilled one horizontal well targeting the middle Montney in the Quarter. Town South is Progress' most developed pod to date, with 16 horizontal wells drilled since the third quarter of 2010.

At the Kobes pod development (30 percent working interest), one partner operated horizontal well was drilled in the Quarter and will be completed in the third quarter. The well was drilled in the southern area of the Kobes development, which is partner operated, while Progress operates the northern portion. The Kobes pod has proven to have among the strongest initial production rates in the entire Montney fairway.

At the Nig exploration block (50 percent working interest), over 25 kilometers east of Town, a partner-operated Montney well was drilled in the Quarter. The well flowed up tubing at 4.2 mmcf per day and is currently shut-in for pressure build-up. Liquids production is expected to be 25 bbls per mmcf.

Progress has drilled and completed three horizontal, 100 percent working interest Dunvegan oil wells in the Deep Basin since the fourth quarter of 2010. The first well, a 2,750 meter test, produced an average of 250 boe per day of 40° API light oil over a 30 day test period and is still producing over 100 boe per day with no water after seven months of operation. Progress' second well expanded the play 39 kilometers to the northwest from the original test. This well, post frac, produced an average of 355 boe per day over a 30 day test period and continues to produce over 300 boe per day after three months of production. The Company's third test was recently placed on production and is expected to average 300 boe per day for the first month of production.

Assuming four wells per section, Progress has identified more than fifty Dunvegan horizontal follow-up locations on its acreage position where the Company has deeper natural gas production. In addition, the Company is evaluating another 20 net perspective sections of land within the Deep Basin. The Dunvegan formation is a pervasive package of stacked marine and fluvial Cretaceous sands ranging in thickness from one meter units to over 25 meters of reservoir. Detailed in-house geologic mapping has illustrated several productive fairways across the Company's lands where it has previously drilled deeper gas tests. A further three wells, at an all-in cost of \$4 million per well, are planned to be drilled in 2011 with the potential to accelerate the program in 2012.

On February 14, 2011, Progress announced that it was expanding its 2011 capital program from \$250 million to \$350 million. Under the expanded program the Company intends to accelerate the number of Montney wells to be drilled in 2011 to approximately 30 to 35 horizontal wells. In connection with the expansion of the capital program the Company completed a financing comprised of the issuance of 14,400,000 common shares at \$13.90 per share for gross proceeds of \$200.2 million (\$193.1 million net of issue costs), as well as \$200 million principal amount of 5.75 percent convertible unsecured subordinated debentures (see "*Liquidity and Capital Resources*" section below).

On March 31, 2011, Progress sold its Two Creek, Alberta properties for approximately \$12.7 million, as well as certain royalty interests in the Copton, Alberta area for \$4.2 million. In April 2011, the Company sold its Fort St. John Plains North properties for approximately \$12.7 million, as well as certain properties in the Copton, Alberta area for approximately \$4.8 million.

On March 31, 2010, the Company completed the Foothills Acquisition for \$389.2 million, including \$2.1 million in transaction costs which were charged to other expenses in the statement of earnings. The net amount capitalized was \$387.1 million. The Foothills Acquisition assets are immediately adjacent to the Company's producing assets in the Town, Bubbles and Blueberry/Beg areas and represent a strategic fit with the Company's existing northeast British Columbia Foothills properties. The assets included production of approximately 7,300 boe per day, 91 percent natural gas, and approximately 188,000 net acres of undeveloped land.

To finance the Foothills Acquisition and a portion of the Company's 2010 capital investment program the Company issued 47,630,000 common shares at \$12.60 per share for total gross proceeds of \$600.1 million (\$588.8 million net of issue costs of \$11.3 million). The share issuance was comprised of a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board ("CPPIB") and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters. Each subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition which occurred on March 31, 2010.

The private placement with CPPIB contains certain conditions in regards to their investment and ongoing relationship with Progress including:

- Lockup provision - requires CPPIB to not sell any shares for an 18 month period following the closing date and CPPIB shall elect to have the shares participate in the dividend reinvestment program.
- Governance - so long as CPPIB owns greater than 12.5 percent of the outstanding common shares they shall have the right to nominate one individual to be a director of Progress. If CPPIB owns greater than 10 percent of the outstanding common shares, Progress shall discuss with CPPIB any proposed transaction for which the Company will require equity financing before implementing such transaction.
- Registration rights – if CPPIB holds 10 percent or more of the outstanding common shares, they shall have the right to require Progress at CPPIB's expense, to prepare, file and obtain receipt for a final prospectus offering for the sale of any portion of the common shares held by CPPIB.
- After 18 months from the closing of the private placement, CPPIB shall have the right to include common shares owned by CPPIB in a prospectus offering to the extent of 15 percent of

such offering.

- Right to participate in future offerings – so long as CPPIB owns greater than 10 percent of the outstanding common shares, CPPIB shall have the pre-emptive right to participate in future offerings up to CPPIB's pro-rata ownership interest immediately prior to the offering.

CPPIB, having greater than 12.5 percent of the outstanding common shares, nominated R. Scott Lawrence, Vice President, Head of Relationship Investments of CPPIB to the Progress Board of Directors. The Progress Board of Directors, upon review of Mr. Lawrence's qualifications by the Corporate Governance and Nominating Committee, appointed Mr. Lawrence to the Board on October 12, 2010.

#### Goodwill

For goodwill impairment tests under IFRS, goodwill that arises from a business combination is allocated to the specific CGUs that are expected to benefit from the business combination. The carrying value of the CGU including goodwill is compared to the fair value of the CGU and any excess of the carrying value over the fair value is considered an impairment. As the goodwill impairment is performed on a much smaller portion of the Company's assets (i.e. at the CGU level), approximately \$371.4 million of Progress' goodwill was impaired on the transition to IFRS on January 1, 2010 and was charged to the deficit on the opening IFRS statement of financial position.

As a result of continued decreases in natural gas prices and their impact on the value of the Company's reserves for certain CGU's, an additional goodwill impairment of \$34.2 million was recognized at March 31, 2010.

As at June 30, 2011 the goodwill balance of \$9.0 million was the result of an acquisition that included the Company's Town properties in the Foothills region of British Columbia. In accordance with IFRS, goodwill is not amortized but is subject to an annual impairment test. Goodwill may be tested for impairment between annual tests in certain situations.

#### Liquidity and Capital Resources

	June 30 2011	December 31 2010
<i>(\$ thousands, except per share amounts)</i>		
Working capital deficiency <sup>(1)</sup>	14,209	21,271
Bank debt	-	312,508
Convertible debentures	424,761	249,313
Total debt	438,970	583,092
Shares outstanding (thousands)	230,529	214,877
Market price per share, end of period	13.73	12.70
Market value of shares	3,165,163	2,728,938

(1) Excludes the fair value of financial instruments.

At June 30, 2011 the Company was undrawn on its credit facility of \$650.0 million as a result of the financing completed on March 7, 2011 as described below. Outstanding as at June 30, 2011 were \$424.8 million for the debt portion of the Debentures and a working capital deficit of \$14.2 million, resulting in \$439.0 million of total debt.

On April 29, 2011 the Company amended and restated its bank credit facility to be a covenant-based facility rather than a borrowing base facility. This facility is a 3-year extendible revolving facility in the amount of \$650 million from a syndicate of lenders with an initial maturity date of April 29, 2014. The maturity date may, at the request of the Company and with the consent of the lenders, be extended on an annual basis. The facilities remain secured over substantially all of the assets of the Company and its material subsidiaries. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's senior debt to EBITDA ratio (as calculated below). The facilities contain customary restrictions on the disposition of assets and the granting of security, as well as on the making of distributions (including the declaration of dividends) if there is then a default under the facilities

(or if a default would reasonably be expected to occur as a result of such distribution). The facilities also contain customary events of default, including on a change of control of the Company where lender consent was not obtained, which could occur if a person or persons acting jointly or in concert acquired more than 30 percent of the outstanding voting securities of the Company.

Under the terms of the bank credit facilities, Progress has provided its covenant that, on a rolling 4-quarter basis: (i) its consolidated senior debt will not exceed three times its consolidated EBITDA, increasing to 3.5 times upon the consummation of a material acquisition and for a period extending to the end of the second full quarter after completion of that acquisition. Senior debt is defined to exclude subordinated debt and non-recourse debt from total debt. EBITDA is calculated as net earnings before unrealized gains and losses on financial instrument contracts, interest and financing expense, acquisition costs, taxes, depreciation, depletion and accretion and any other non-cash amounts which are added back or deducted from net income in accordance with IFRS in the statement of cash flows; (ii) its consolidated total debt (excluding, for certainty, any convertible debentures) will not exceed four times its consolidated EBITDA (similarly calculated), and (iii) its consolidated senior debt will not exceed one-half of its total capitalization (calculated as the aggregate of consolidated total debt, the principal amount of convertible debentures and consolidated shareholders' equity), increasing to 55 percent upon the consummation of a material acquisition and for a period extending to the end of the second full quarter after completion of that acquisition.

Bank debt of nil as at June 30, 2011 was lower than December 31, 2010 bank debt of \$312.5 million due to the issuance of 14,400,000 common shares at \$13.90 per share for total gross proceeds of \$200.2 million (\$193.1 million net of issue costs of \$7.1 million) and the issuance of \$200.0 million principal amount of 5.75 percent convertible unsecured subordinated debentures (\$192.2 million net of issue costs of \$7.8 million) completed on March 7, 2011.

The working capital deficiency decreased from \$21.3 million as at December 31, 2010 to \$14.2 million as at June 30, 2011 due to lower accounts payable and accrued liabilities as a result of lower capital expenditures in the Quarter as compared to the fourth quarter of 2010.

As at June 30, 2011 Progress had the following Debentures outstanding. Each Debenture may be converted into common shares at the option of the holder at the applicable conversion price per common share noted below. The Company may elect to satisfy the interest and principal obligations by the issuance of common shares subject to required regulatory approvals.

Debenture	Principal	Semi Annual Interest Payments	Conversion Price (\$/share)	Maturity Date
5.75%	200,000	June 30 and December 31	\$20.85	June 30, 2016
5.25%	200,000	April 30 and October 31	\$18.00	October 31, 2014
6.25%	75,000	March 31 and September 30	\$24.00	September 30, 2011

As at June 30, 2011 the Company had outstanding \$75.0 million principal amount of the 6.25 percent debentures, \$200.0 million principal amount of the 5.25 percent debentures and \$200.0 million principal amount of the 5.75 percent debentures for a combined total of \$475.0 million.

The Debentures have been classified as debt net of the fair value of the conversion feature which has been classified as part of shareholders' equity and net of issue costs. At June 30, 2011 the debt portion was \$424.8 million, net of unamortized issue costs. Issue costs are amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion and amortization of issue costs are expensed within other finance expenses on the consolidated statements of earnings and comprehensive income.

Outstanding as at July 27, 2011 were the following:

	Shares Outstanding Or Issuable
Common shares	231,645,458
Convertible debentures	23,828,437
Stock options	7,256,434
Restricted Unit Awards	256,112
Performance Unit Awards	738,630
LTI component from the Trust	4,725

### *Current economic conditions*

Despite the economic downturn and financial market volatility dating back to 2009, Progress continued to have access to both debt and equity markets in 2010 and into 2011. As noted above, on March 7, 2011 the Company issued 14,400,000 common shares at \$13.90 per share as well as \$200.0 million principal amount of the 5.75 percent debentures. On March 31, 2010 Progress raised \$600.1 million gross (\$588.8 net of issue costs) on the issuance of 47,630,000 common shares at \$12.60 per share and on October 23, 2009 the Company issued \$200.0 million principal amount of 5.25 percent debentures. At June 30, 2011 the Company had \$650.0 million available on its undrawn credit facility.

Progress is also currently working with PETRONAS to establish the Upstream Joint Venture (see “North Montney Upstream Joint Venture” above) with the transaction expected to close during the third quarter of 2011. The transaction will enable Progress to accelerate its growth strategy and provide support for future capital programs.

The Company’s investing activities for the Quarter consisted of expenditures on its capital program. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt. Cash flow used to finance these commitments may reduce the amount of dividends paid to shareholders as dividends are not guaranteed.

### **Reduction of Stated Capital**

On May 11, 2011 the shareholders of Progress approved a special resolution to reduce the stated capital of common shares of Progress by an amount equal to the Company’s deficit calculated as at January 1, 2010 in accordance with IFRS. As a result of two fundamental reporting differences between IFRS and the previous GAAP, the deficit increased from \$277.5 million under the previous GAAP to \$669.3 million under IFRS.

The first fundamental difference is how goodwill is tested for impairment. Under IFRS goodwill that arises from a business combination is allocated to the specific CGUs that are expected to benefit from the business combination. For impairment testing the carrying value of the CGU, including goodwill, is compared to the fair value of the CGU and any excess of the carrying value over the fair value is considered an impairment. As the goodwill impairment is performed on a much smaller portion of the Company’s assets (i.e. at the CGU level), approximately \$371.4 million of Progress’ goodwill was impaired on the transition to IFRS on January 1, 2010 and was charged to the deficit on the opening IFRS statement of financial position.

The second fundamental difference relates to the discount rate used to measure the decommissioning obligations. Under the previous GAAP a credit adjusted risk free rate was used whereas under IFRS a risk free rate is used. As a result of discounting at a lower rate, the decommissioning obligation increased by \$26 million on transition with an offsetting charge to the deficit on the opening IFRS statement of financial position.

The combination of these two fundamental differences, together with the impact of distributions from the Company’s previous income trust structure resulted in a deficit of \$669.3 million on the transition to IFRS. The impact of the reduction of stated capital was a reduction to share capital and offsetting reduction to the deficit of \$669.3 million on the statement of financial position.

## International Financial Reporting Standards

Note 15 to the interim consolidated financial statements presents reconciliations between the Company's 2010 previous GAAP results and its 2010 results under IFRS. The reconciliations include the consolidated statement of financial position as at June 30, 2010 and consolidated statements of earnings and comprehensive income and cash flows for the three and six months ended June 30, 2010.

The following provides summary reconciliations of Progress' 2010 previous GAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes.

### Summary Statement of Financial Position Reconciliations

(\$ thousands)	As at January 1, 2010					
	Previous GAAP	E&E	Impairment	Decommissioning obligation	Other <sup>1</sup>	IFRS
Current Assets	63,970					63,970
Exploration and evaluation assets	-	206,487	-	-	-	206,487
Property, plant and equipment	1,979,765	(206,487)	-	-	-	1,773,278
Goodwill	414,655	-	(371,429)	-	-	43,226
<b>Total Assets</b>	<b>2,458,390</b>	<b>-</b>	<b>(371,429)</b>	<b>-</b>	<b>-</b>	<b>2,086,961</b>
Current liabilities	126,283	-	-	-	1,123	127,406
Bank debt and convertible debentures	519,451	-	-	-	-	519,451
Decommissioning obligation	39,423	-	-	26,151	-	65,574
Deferred income taxes	57,935	-	-	(6,538)	7,252	58,649
Shareholders' Equity	1,715,298	-	(371,429)	(19,613)	(8,375)	1,315,881
<b>Total liabilities and shareholders' equity</b>	<b>2,458,390</b>	<b>-</b>	<b>(371,429)</b>	<b>-</b>	<b>-</b>	<b>2,086,961</b>

(1) Other includes the addition of dividends declared on share based compensation awards and the deferred income tax impact related to convertible debentures with the offsetting charge to opening retained earnings or deficit, as well as the reclassification of current deferred taxes to long-term.

As at December 31, 2010

(\$ thousands)	Previous		Decommissioning			
	GAAP	E&E	Impairment	obligation	Other <sup>1</sup>	IFRS
Current Assets	85,406	-	-	-	-	85,406
Exploration and evaluation assets	-	307,132	-	-	-	307,132
Property, plant and equipment	2,432,398	(323,507)	(139,624)	26,337	37,758	2,033,362
Goodwill	414,655	-	(405,655)	-	-	9,000
<b>Total Assets</b>	<b>2,932,459</b>	<b>(16,375)</b>	<b>(545,279)</b>	<b>26,337</b>	<b>37,758</b>	<b>2,434,900</b>
Current liabilities	176,461	-	-	-	55	176,516
Bank debt and convertible debentures	488,054	-	-	-	-	488,054
Decommissioning obligation	42,297	-	-	52,163	(7,642)	86,818
Deferred income taxes	40,547	-	(34,906)	(8,465)	15,194	12,370
Shareholders' Equity	2,185,100	(16,375)	(510,373)	(17,361)	30,151	1,671,142
<b>Total liabilities and shareholders' equity</b>	<b>2,932,459</b>	<b>(16,375)</b>	<b>(545,279)</b>	<b>26,337</b>	<b>37,758</b>	<b>2,434,900</b>

(1) The property, plant and equipment ("PP&E") adjustment under "other" includes the impact of lower depletion as a result of using proved plus probable reserves (\$54.1 million), the net reduction to PP&E related to the Central Alberta disposition (\$17.0 million), the reclassification of transaction costs on the Foothills Acquisition (\$2.1 million reduction to PP&E) a net increase to PP&E related to property swaps of \$2.4 million, and an additional \$0.4 million capitalized regarding share based compensation. The increase to current liabilities under "other" relates to the recognition of dividends declared on share based compensation awards, which was mostly offset by the reclassification of current deferred taxes to long-term. The reduction to the decommissioning obligation relates to the Central Alberta disposition. The deferred income tax adjustment relates to the tax impact on the lower depletion of PP&E, the deferred tax treatment for convertible debentures and reclassification of current deferred taxes to long-term. The offset to these adjustments was through retained earnings or deficit.

#### Summary Net Earnings Reconciliation

(\$ thousands)	2010				
	Annual	Q4	Q3	Q2	Q1
Net earnings/(loss) – previous GAAP	(62,438)	(21,491)	(18,423)	(23,288)	764
After-tax addition/(deduction):					
Operating expense <sup>1</sup>	356	230	126	-	-
General and administrative <sup>2</sup>	223	-	-	215	8
Share based compensation	(1,439)	(752)	(372)	(356)	41
Depletion and depreciation	28,247	6,033	10,157	7,563	4,494
Decommissioning obligation accretion	244	50	91	51	52
Gain/(loss) on divestitures	(5,728)	1,108	389	(7,225)	-
Property, plant and equipment impairment	(104,718)	(89,919)	-	-	(14,799)
Goodwill impairment	(34,226)	-	-	-	(34,226)
Other expenses (transaction costs)	(1,610)	-	-	(180)	(1,430)
Deferred income tax on debenture accretion	1,721	557	388	388	388
	(116,930)	(82,693)	10,779	456	(45,472)
<b>Net loss – IFRS</b>	<b>(179,368)</b>	<b>(104,184)</b>	<b>(7,644)</b>	<b>(22,832)</b>	<b>(44,708)</b>

(1) Relates to the capitalization of turnaround and major overhaul costs to PP&E.

(2) Relates to the reclass of dividends paid on the Trust LTI, previously treated as additional compensation.

On transition to IFRS on January 1, 2010 Progress used certain exemptions allowed under IFRS 1 First Time Adoption of International Reporting Standards. The exemptions used were as follows:

*Full Cost Accounting* – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity’s previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity’s previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Progress used the value of proved plus probable reserves to allocate its opening value of development and production assets.

*Business Combinations* – IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

*Share-based compensation* – IFRS 1 allows an entity an exemption on IFRS 2, “Share-Based Payments” to equity instruments which vested before Progress’ transition date to IFRS.

*Decommissioning Obligation* – As Progress elected to use the oil and gas exemption, a decommissioning obligation exemption was also used that allows for the re-measurement of decommissioning obligations on IFRS transition to be offset to retained earnings/deficit.

#### Accounting Policy Changes and the Impact of Transition to IFRS

- Exploration and Evaluation (“E&E”) assets – On transition to IFRS Progress reclassified \$206.5 million of E&E assets that were previously included in the PP&E balance on the consolidated statement of financial position. This consisted of the book value of undeveloped land that relates to exploration properties. E&E assets are not depleted and must be assessed for impairment at the transition date and when indicators of impairment exist. There was no transitional impairment of the E&E assets. The cost of undeveloped land that expires or any impairment recognized during a period, is charged as additional depletion and depreciation expense.
- Property, plant and equipment (“PP&E”) – This includes oil and gas assets in the development and production phases. The Company has allocated the amount recognized under the previous GAAP as at January 1, 2010 to CGUs using reserve values.
- Divestitures – Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed. For the year ended December 31, 2010, Progress recognized a \$7.6 million (\$5.7 million after tax) net loss on divestitures under IFRS compared to nil under the previous GAAP.
- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which was required under the previous GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. The recoverable amount is determined using fair value less cost to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs. There was no impairment to PP&E on January 1, 2010 under IFRS. In the first quarter of 2010, as a result of continued decreases in natural gas prices and the impact on future natural gas prices used in evaluating the Company’s reserves, Progress incurred a charge of \$19.7 million (\$14.8 million after tax) on the impairment of PP&E for certain CGU’s. In the fourth quarter of 2010, an additional impairment charge of \$119.9 million (\$89.9 million after tax) was recognized

due to continued decreasing natural gas prices. PP&E impairments can be reversed in the future if the recoverable amount increases.

- Impairment of goodwill – For goodwill impairment tests under IFRS, goodwill that arises from a business combination is allocated to the specific CGUs that are expected to benefit from the business combination. The carrying value of the CGU including goodwill is compared to the fair value of the CGU and any excess of the carrying value over the fair value is considered an impairment. As the goodwill impairment is performed on a much smaller portion of the Company's assets (i.e. at the CGU level), \$371.4 million of Progress' goodwill was impaired on transition at January 1, 2010 and was charged through the opening deficit on its opening IFRS statement of financial position. As a result of continued decreases in natural gas prices and their impact on the value of the Company's reserves for certain CGU's an additional goodwill impairment charge was recognized in the first quarter of 2010 of \$34.2 million. Goodwill impairments can not be reversed in the future.
- Decommissioning Obligation – Under the previous GAAP a credit adjusted risk free rate was used to measure the obligation. Under IFRS Progress has used a risk free rate given the expected cash flows are risked. The result of using a lower discount rate was an increase to the obligation on transition of \$26.2 million with an offsetting charge to the opening deficit, net of the deferred income tax effect of \$6.5 million.
- Depletion and depreciation expense – Under IFRS Progress has chosen to base the depletion calculation using proved plus probable reserves. This resulted in a decrease to depletion and depreciation expense in 2010 as compared to the previous GAAP and before the impact of the PP&E impairments described above which were recognized as additional depletion in the first and fourth quarters of 2010.
- Share based compensation –The major differences from the previous GAAP are the treatment of graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. For awards in which employees are entitled to dividends declared over the vesting period, those dividends are charged to equity and recognized as a liability when declared. Progress recognized a \$1.7 million increase to dividends payable with an offsetting charge to equity at transition.

## DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICOFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

The DC&P have been designed to provide reasonable assurance that material information relating to Progress is made known to the CEO and CFO by others and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by Progress under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

The CEO and CFO are required to cause the Company to disclose any change in the Company's ICOFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICOFR. No changes in ICOFR were identified during such period that have materially

affected or are reasonably likely to materially affect, the Company's ICOFR. There were no changes to ICOFR as a result of the transition to IFRS.

It should be noted a control system, including the Company's DC&P and ICOFR, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system will be met and it should not be expected that DC&P and ICOFR will prevent all errors or fraud.

#### **Additional Information**

Additional information regarding the Company and its business and operations, including the annual information form ("AIF") is available on the Company's profile at [www.sedar.com](http://www.sedar.com). Copies of the AIF can also be obtained by contacting the Company at Progress Energy Resources Corp. 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at [ir@progressenergy.com](mailto:ir@progressenergy.com). This information is also accessible on the Company's web site at [www.progressenergy.com](http://www.progressenergy.com).

## OUTLOOK

Our 2011 capital program has been established at \$350 million and is expected to result in year-over-year production growth of approximately 13 percent. Production is projected to exit 2011 at between 50,000 and 52,000 boe per day, before the impact of dispositions. We have a current productive capability of approximately 45,000 boe per day.

The focus of our capital program for the remainder of the year will be the continued advancement of our highly economic Montney pod developments at Town South, Town North, Gundy and Kobes. Additionally, activity on our North Montney Joint Venture lands in the Altares, Lily and Kahta areas will commence upon closing of the strategic partnership in the third quarter of 2011. We will continue to take advantage of the factors that make the North Montney attractive; the natural gas we produce is sweet and therefore does not require expensive sour gas processing; we attract a deep drilling royalty credit of approximately \$2.1 million per well; and, we produce approximately 20 barrels per million cubic feet of high-value natural gas liquids. Along with our experience in the area, evolving drilling and completions technologies and strong initial production rates and recoveries, we are well positioned to deliver value for shareholders.

Natural gas prices weakened through the Quarter, a period when demand is typically low due to moderate temperatures; however heat in early June demonstrated that non-normal weather has the ability to significantly increase prices. We remain optimistic about the long-term prospects for natural gas in North America and increasingly view the natural gas market as a global, rather than regional, marketplace. As demonstrated by our LNG Joint Venture with PETRONAS, the resource potential of northeast British Columbia is globally recognized and supply from a stable OECD country is highly prized by Asian consumers. Momentum is building for the large scale development of LNG facilities on the West Coast, which will enable Progress to target more attractive markets.

Progress is well positioned to execute on its growth plans. We have a strong balance sheet with no bank debt as at the end of the Quarter, an undrawn credit facility and expect to receive an upfront \$267.5 million cash payment upon closing of our strategic partnership with PETRONAS. These financial levers provide immediate and ongoing funding for our growth strategy. Non-core asset dispositions and the standby equity financing component of our strategic partnership with PETRONAS provide further support in the long term.

On behalf of the Board of Directors,

    (Signed) "Michael R. Culbert"

Michael R. Culbert  
President & CEO  
July 28, 2011

**Forward-Looking Statements** Certain information regarding Progress set forth in this document, including Management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. Such statements represent Progress' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Progress believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Progress' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Progress.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to terms of binding framework agreement with PETRONAS, including terms of Upstream Joint Venture and LNG Joint Venture; the effect of LNG Joint Venture on British Columbia natural resources; targeted 2011 exit production; expected average third quarter production; anticipated average royalty rates and effect of government incentives on Progress' results of operations; future royalty rates; anticipated average operating expenses, transportation expenses and G&A expenses for 2011; terms of the Stock Option Plan, Performance Units Awards and Restricted Unit Awards; dividend policy and payment of future dividends; expected timing of completion of well at Kobes pod development; drilling plans; plans for 2011 expanded capital program; terms of credit facility; terms of convertible debentures; effect of the Upstream Joint Venture on Progress' growth strategy and future capital programs; anticipated liquidity to fund budgeted capital investments; capital investment programs and effect on production growth; focus of capital program for remainder of 2011; timing of commencement of activity on North Montney Joint Venture lands; benefits of development of LNG facilities; future prospects; the focus of and timing of capital expenditures; projections of market prices and costs and the related sensitivity of dividends; the performance characteristics of the Company's crude oil and natural gas properties; Progress' future operating and financial results; supply and demand for crude oil and natural gas; drilling, development and completion plans and the timing of and results therefrom; treatment under governmental regulatory regimes and tax laws; and estimated tax pool balances. . In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; volatility of commodity prices; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; failure to complete the Upstream Joint Venture and/or the LNG Joint Venture on the terms described or at all; failure to realize the anticipated benefits of the Upstream Joint Venture and/or the LNG Joint Venture; failure to receive all required regulatory approvals for the Upstream Joint Venture and/or the LNG Joint Venture; stock market volatility; ability to access sufficient capital from internal and external sources and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2010 which is available on [www.sedar.com](http://www.sedar.com).

With respect to forward-looking statements contained in this MD&A, Progress has made assumptions regarding: current commodity prices and royalty regimes; availability of skilled labour; North American sulphur prices; timing and amount of capital expenditures; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; completion of definitive documentation and receipt of all required regulatory approvals for the Upstream Joint Venture and the LNG Joint Venture; availability of drilling and related equipment; effects of regulation by governmental agencies; royalty rates and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Progress' current and future operations and such information may not be appropriate for other purposes. Progress' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and the Company disclaim any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

***Non-GAAP Measurements*** Management uses the industry benchmark operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and prior thereto, Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback is used by research analysts to compare operating performance and the Company's ability to maintain current operations and meet the forecasted capital program. Operating netback is the net result of the Company's revenue, net of realized gains and losses on financial instruments, and royalty, operating and transportation expenses as found in the accompanying interim financial statements

**PROGRESS ENERGY RESOURCES CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(Unaudited)*

<i>(\$ thousands)</i>	June 30 2011	December 31 2010
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	5,538	-
Accounts receivable	36,634	64,243
Prepaid expenses and deposits	7,442	6,568
Investments <i>(Note 14)</i>	9,472	10,667
Fair value of financial instruments <i>(Note 14)</i>	-	3,928
	59,086	85,406
Exploration and evaluation assets <i>(Note 5)</i>	307,415	307,132
Property, plant and equipment <i>(Note 6)</i>	2,070,248	2,033,362
Goodwill <i>(Note 7)</i>	9,000	9,000
	2,445,749	2,434,900
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	48,860	80,095
Dividends payable	24,435	22,654
Convertible debentures <i>(Note 9)</i>	74,586	73,767
Fair value of financial instruments <i>(Note 14)</i>	1,839	-
	149,720	176,516
Bank debt <i>(Note 8)</i>	-	312,508
Convertible debentures <i>(Note 9)</i>	350,175	175,546
Decommissioning obligations <i>(Note 10)</i>	84,476	86,818
Deferred income taxes	14,362	12,370
	598,733	763,758
<b>SHAREHOLDERS' EQUITY</b>		
Shareholders' capital <i>(Note 11)</i>	2,103,250	2,561,870
Convertible debentures <i>(Note 9)</i>	37,349	20,706
Contributed surplus	28,322	23,673
Deficit	(321,905)	(935,107)
	1,847,016	1,671,142
	2,445,749	2,434,900

*The accompanying notes are an integral part of these consolidated financial statements.*

**PROGRESS ENERGY RESOURCES CORP.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
*(Unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands, except per share amounts)</i>	2011	2010	2011	2010
<b>REVENUE</b>				
Petroleum and natural gas	117,340	115,859	234,455	229,330
Royalties	(16,143)	(16,918)	(28,651)	(36,806)
	101,197	98,941	205,804	192,524
Realized gain (loss) on financial instruments <i>(Note 14)</i>	(870)	3,855	3,968	2,983
Unrealized gain (loss) on financial instruments <i>(Note 14)</i>	(1,663)	(7,926)	(5,767)	6,638
	98,664	94,870	204,005	202,145
<b>EXPENSES</b>				
Operating	21,306	25,542	42,785	44,849
Transportation	12,631	12,837	25,105	22,385
Depletion and depreciation <i>(Note 5 and 6)</i>	52,025	59,595	110,302	128,709
Goodwill impairment <i>(Note 7)</i>	-	-	-	34,226
General and administrative	3,594	3,841	7,466	7,376
Share based compensation <i>(Note 11)</i>	2,046	3,730	4,889	6,447
Loss on divestitures <i>(Note 6)</i>	6,635	9,634	1,478	9,634
Other expenses <i>(Note 6)</i>	-	240	-	2,146
	98,237	115,419	192,025	255,772
	427	(20,549)	11,980	(53,627)
Interest and finance expenses	(7,772)	(7,762)	(15,434)	(17,293)
Other finance expenses <i>(Note 12)</i>	(6,782)	(1,385)	(8,279)	(5,805)
Loss before taxes	(14,127)	(29,696)	(11,733)	(76,725)
<b>TAXES</b>				
Deferred income taxes (reduction)	(2,691)	(6,864)	(1,923)	(9,185)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(11,436)</b>	<b>(22,832)</b>	<b>(9,810)</b>	<b>(67,540)</b>
<b>NET LOSS PER SHARE <i>(Note 11)</i></b>				
Basic and diluted	(\$0.05)	(\$0.11)	(\$0.04)	(\$0.36)

*The accompanying notes are an integral part of these consolidated financial statements.*

**PROGRESS ENERGY RESOURCES CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Unaudited)*

	Shareholders' Capital	Convertible debentures	Contributed surplus	Deficit	Total Equity
Balance January 1, 2011	2,561,870	20,706	23,673	(935,107)	1,671,142
Net loss for the period	-	-	-	(9,810)	(9,810)
Reduction of stated capital <i>(Note 11)</i>	(669,283)	-	-	669,283	-
Issue of shares (net)	194,877	-	-	-	194,877
Share based compensation expensed	-	-	4,889	-	4,889
Share based compensation capitalized	-	-	691	-	691
Share based compensation settlements	931	-	(931)	-	-
Issued on exercise of options	647	-	-	-	647
Dividend reinvestment program	14,208	-	-	-	14,208
Dividends declared	-	-	-	(46,271)	(46,271)
Issue of 5.75% convertible debentures	-	16,643	-	-	16,643
<b>Balance June 30, 2011</b>	<b>2,103,250</b>	<b>37,349</b>	<b>28,322</b>	<b>(321,905)</b>	<b>1,847,016</b>
Balance at January 1, 2010	1,944,738	22,624	17,802	(669,283)	1,315,881
Net loss for the period	-	-	-	(67,540)	(67,540)
Issue of shares (net)	591,971	-	-	-	591,971
Share based compensation expensed	-	-	6,447	-	6,447
Share based compensation capitalized	-	-	787	-	787
Share based compensation settlements	1,620	-	(1,620)	-	-
Issued on exercise of options	263	-	-	-	263
Convertible debentures – equity portion	-	(1,918)	1,918	-	-
Dividend reinvestment program	3,679	-	-	-	3,679
Dividends declared	-	-	-	(43,360)	(43,360)
<b>Balance June 30, 2010</b>	<b>2,542,271</b>	<b>20,706</b>	<b>25,334</b>	<b>(780,183)</b>	<b>1,808,128</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**PROGRESS ENERGY RESOURCES CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited)*

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands)</i>	2011	2010	2011	2010
<b>OPERATING ACTIVITIES</b>				
Net loss	(11,436)	(22,832)	(9,810)	(67,540)
Unrealized loss (gain) on financial instruments <i>(Note 14)</i>	1,663	7,926	5,767	(6,638)
Loss on divestitures <i>(Note 6)</i>	6,635	9,634	1,478	9,634
Goodwill impairment <i>(Note 7)</i>	-	-	-	34,226
Other finance expenses <i>(Note 12)</i>	6,782	1,385	8,279	5,805
Depletion and depreciation <i>(Note 5 and 6)</i>	52,025	59,595	110,302	128,709
Decommissioning expenditures <i>(Note 10)</i>	(406)	(1,359)	(1,042)	(3,440)
Share based compensation <i>(Note 11)</i>	2,046	3,730	4,889	6,447
Deferred income taxes (reduction)	(2,691)	(6,864)	(1,923)	(9,185)
	54,618	51,215	117,940	98,018
Changes in non-cash working capital <i>(Note 13)</i>	1,634	5,943	9,657	70
	56,252	57,158	127,597	98,088
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in bank debt	-	39,311	(312,508)	(99,494)
Repayment of convertible debenture <i>(Note 9)</i>	-	(55,667)	-	(55,667)
Issue of shares <i>(Note 11)</i>	-	-	200,160	600,138
Share issue costs <i>(Note 11)</i>	125	130	(7,102)	(11,191)
Issue of 5.75% convertible debentures <i>(Note 9)</i>	-	-	200,000	-
5.75% convertible debenture issue costs <i>(Note 9)</i>	95	-	(7,782)	-
Exercise of options <i>(Note 11)</i>	35	263	647	263
Cash dividends	(15,083)	(19,148)	(30,283)	(34,374)
Changes in non-cash working capital <i>(Note 13)</i>	(277)	(1,047)	352	(607)
	(15,105)	(36,158)	43,484	399,068
<b>INVESTING ACTIVITIES</b>				
Proceeds from divestitures <i>(Note 6)</i>	18,316	44,473	35,344	44,473
Capital expenditures – property, plant and equipment <i>(Note 6)</i>	(29,451)	(18,272)	(123,311)	(92,367)
Capital expenditures – exploration and evaluation assets <i>(Note 5)</i>	(16,586)	(19,989)	(63,066)	(66,667)
Asset acquisition <i>(Note 5 and 6)</i>	-	616	-	(387,087)
Changes in non-cash working capital <i>(Note 13)</i>	(45,277)	(27,828)	(14,510)	4,492
	(72,998)	(21,000)	(165,543)	(497,156)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(31,851)	-	5,538	-
Cash and cash equivalent, beginning of period	37,389	-	-	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	5,538	-	5,538	-

*The accompanying notes are an integral part of these consolidated financial statements.*

# PROGRESS ENERGY RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited) (tabular amounts are in \$ thousands except for share and per share amounts)*

### 1. REPORTING ENTITY

Progress Energy Resources Corp. (“Progress” or the “Company”) is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in the provinces of British Columbia and Alberta. The Company conducts many of its activities jointly with others and these financial statements reflect only Progress’ proportional interest in such activities. Progress was incorporated on April 8, 2004 under the name ProEx Energy Ltd. (“ProEx”) and commenced commercial operations on July 2, 2004. On January 15, 2009, in connection with a plan of arrangement, ProEx was renamed Progress Energy Resources Corp. The Company currently has one wholly owned subsidiary and is a partner in a general partnership.

### 2. BASIS OF PREPARATION:

#### (a) Statement of compliance:

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These interim consolidated financial statements are for part of the period covered by the first International Financial Reporting Standards (“IFRS”) annual financial statements of the Company and IFRS 1, “First-time Adoption of International Financial Reporting Standards” has been applied. These interim consolidated financial statements do not include all of the information required for full annual financial statements. The impact of the new standards, including reconciliations presenting the change from previous GAAP to IFRS as at June 30, 2010 and for the three and six months ended June 30, 2010, is presented in note 15.

The consolidated financial statements were authorized for issuance by the Board of Directors on July 28, 2011.

#### (b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- (i) derivative financial instruments are measured at fair value; and
- (ii) held for trading financial assets are measured at fair value with changes in fair value recorded in earnings.

The methods used to measure fair values are discussed in note 4.

#### (c) Functional and presentation currency:

These interim consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

#### (d) Use of estimates and judgments:

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these interim consolidated financial statements are as follows:

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty.

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes-Merton model which is based on significant assumptions such as volatility, dividend yield and expected term. Several compensation plans are also performance based and are subject to management's judgment as to whether or not performance criteria will be met.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the interim consolidation financial statements as at March 31, 2011. The significant accounting policies are described in note 3 of the March 31, 2011 interim consolidated financial statements.

#### (a) New standards and interpretations not yet adopted:

In May 2011, the IASB issued four new standards and two amendments. Five of these items related to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

IFRS 10, "Consolidated Financial Statements" replaces IAS 27 "Consolidated Separate Financial Statements". It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11 "Joint Arrangements" replaces IAS 31, "Interests in Joint Ventures". IFRS 11 divides joint arrangements into two types, each having its own accounting model. A "joint operation" continues to be accounted for using proportionate consolidation, where a "joint venture" must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A "joint operation" is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a "joint venture", the joint ventures' have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 "Disclosure of Interests in Other Entities" is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 "Investments in Associates and Joint Ventures" has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

IAS 27 “Separate Financial Statements” has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements.

In November 2009, the IASB published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company’s own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards.

#### 4. DETERMINATION OF FAIR VALUES

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment and exploration and evaluation assets:

The fair value of property, plant and equipment and exploration and evaluation assets recognized in a business combination, is based on market values. The market value of property, plant and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, cash dividends payable and bank debt:

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, cash dividends payable and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At June 30, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity or in the case of bank debt, the fair value approximates its carrying value as it bears interest at floating rates and the premium charged was indicative of the Company’s current credit premium.

(iii) Derivatives:

The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the reporting date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

(iv) Convertible debentures:

The convertible debentures trade on the Toronto stock exchange under the symbols PRQ.DB.A, PRQ.DB.B and PRQ.DB.C. The fair value of the convertible debentures is based on quoted market prices.

(v) Stock options:

The fair value of employee stock options is measured using a Black Scholes-Merton option pricing model. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(vi) Restricted units and performance units:

The fair value of the Company's restricted units and performance units is measured using the quoted market price of the Company's common shares as at the date of grant.

## 5. EXPLORATION AND EVALUATION ASSETS

	Total
Balance, January 1, 2010	206,487
Additions	152,514
Asset acquisition ( <i>Note 6</i> )	83,442
Divestitures	(2,005)
Transfer to property, plant and equipment	(116,931)
Expiries (depletion expense)	(16,375)
<b>Balance, December 31, 2010</b>	<b>307,132</b>
Additions	63,066
Divestitures	(2,417)
Transfer to property, plant and equipment	(53,459)
Expiries (depletion expense)	(6,907)
<b>Balance, June 30, 2011</b>	<b>307,415</b>

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Costs primarily consist of undeveloped land and drilling costs until the drilling of the well is complete and the results have been evaluated.

Amortization and impairment charge:

The cost of undeveloped land that expires during a period and any impairment of intangible exploration assets is recognized as additional depletion and depreciation expense. Any reversal in a previous impairment charge would be recognized as a reduction to depletion and depreciation expense.

## 6. PROPERTY, PLANT AND EQUIPMENT

Cost or deemed cost	Total
Balance, January 1, 2010	1,773,278
Additions	219,607
Transfer from exploration and evaluation assets	116,931
Asset acquisition	303,645
Impairment	(139,624)
Divestitures	(64,928)
Change in decommissioning obligations	28,531
Capitalized share based compensation	1,532
<b>Balance, December 31, 2010</b>	<b>2,238,972</b>
Additions	123,311
Transfer from exploration and evaluation assets	53,459
Divestitures	(43,458)
Change in decommissioning obligations	2,039
Capitalized share based compensation	691
<b>Balance, June 30, 2011</b>	<b>2,375,014</b>

Accumulated depletion and depreciation:	Total
Balance, January 1, 2010	-
Depletion and depreciation expense	(209,066)
Divestitures	3,456
Balance, December 31, 2010	(205,610)
Depletion and depreciation expense	(103,395)
Divestitures	4,239
Balance, June 30, 2011	(304,766)
<hr/>	
Net book value:	Total
As at January 1, 2010	1,773,278
As at December 31, 2010	2,033,362
As at June 30, 2011	2,070,248

The calculation of 2011 depletion and depreciation expense included an estimated \$1,183.8 million (2010 - \$736.4 million) for future development costs associated with proved plus probable undeveloped reserves and excluded \$72.3 million (2010 - \$63.5 million) for the estimated salvage value of production equipment and facilities. Depletion and depreciation expense for property, plant and equipment for the three and six months ended June 30, 2011 was \$49.1 million and \$103.4 million, respectively (2010 - \$49.8 million and \$114.7 million).

#### Divestitures:

For the three and six months ended June 30, 2011, the Company disposed of certain assets for gross proceeds of \$18.3 million and \$35.3 million, respectively. This resulted in a loss of \$6.6 million and \$1.5 million for the three and six months ended June 30, 2011. On June 30, 2010 the Company disposed of its central Alberta properties for \$44.5 million. This resulted in a loss of \$9.6 million.

#### Acquisition:

On March 31, 2010, Progress acquired certain crude oil and natural gas assets for \$387.1 million (excluding transaction costs) of which \$83.4 million was recognized in exploration and evaluation assets for the value of undeveloped land and \$303.7 was recognized in property, plant and equipment. Acquisition costs of \$2.1 million were charged to other expenses on the statement of earnings and comprehensive income for the six months ended June 30, 2010. In addition, Progress recorded a decommissioning provision of \$16.7 million in relation to the acquired assets.

#### Impairments:

During 2010, as a result of decreasing natural gas prices, Progress recognized a \$139.6 million impairment relating to certain of the Company's CGU's. An impairment charge was taken at March 31, 2010 (\$19.7 million) and December 31, 2010 (\$119.9 million) and recorded as additional depletion and depreciation expense. The impairments were based on the difference between the period end net book value of the assets and the recoverable amount. The recoverable amount was determined using fair value less cost to sell based on discounted cash flows of proved plus probable reserves using forecast prices and costs and a discount rate of 10 percent.

## 7. GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Company's CGU's that are expected to benefit from the acquisition on which the goodwill was recognized. On transition to IFRS on January 1, 2010, the recoverable amount, based on the higher of value in use and the fair value less cost to sell was determined to be lower than the carrying amount for the Deep Basin CGU and as a result Progress reduced its goodwill balance by \$371.4 million with the offset being charged to the opening deficit on the Company's statement of financial

position. The six months ended June 30, 2010 includes an additional impairment charge of \$34.2 million that was recognized in the first quarter of 2010 as a result of further decreases in forecasted natural gas prices and the impact on the recoverable amount of goodwill. The remaining goodwill of \$9.0 million relates to the Company's South Foothills, British Columbia CGU.

The basis on which the recoverable amount was determined for the purpose of the impairment test was fair value less cost to sell. This was determined based on discounted future cash flows generated from the related proved plus probable reserves and any excess fair value of undeveloped land over its carrying value within exploration and evaluation assets for that particular CGU. The key assumptions of the last test performed as at December 31, 2010 were:

- Proved plus probable reserves as determined by the Company's independent qualified reserves evaluator
- Forecast commodity prices as estimated by the independent qualified reserves evaluator taking into account future prices in effect at the time
- A 2 percent inflation rate
- Discount rate of 10 percent

## 8. BANK DEBT

	June 30 2011	December 31 2010
Direct advances	-	37,508
Banker's acceptances	-	275,000
Total bank debt	-	312,508

The Company's bank debt was repaid in full on March 7, 2011 as a result of the convertible debenture and common share financing described in notes 9 and 11.

On April 29, 2011 the Company amended and restated its bank credit facility to be a covenant-based facility rather than a borrowing base facility. This facility is a 3-year extendible revolving facility in the amount of \$650 million from a syndicate of lenders with an initial maturity date of April 29, 2014. The maturity date may, at the request of the Company and with the consent of the lenders, be extended on an annual basis. The facilities remain secured over substantially all of the assets of the Company and its material subsidiaries. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's senior debt to EBITDA ratio (as described below). The facilities contain customary restrictions on the disposition of assets and the granting of security, as well as on the making of distributions (including the declaration of dividends) if there is then a default under the facilities (or if a default would reasonably be expected to occur as a result of such distribution). The facilities also contain customary events of default, including on a change of control of the Company where lender consent was not obtained, which could occur if a person or persons acting jointly or in concert acquired more than 30 percent of the outstanding voting securities of the Company.

Under the terms of the bank credit facility, Progress has provided its covenant that, on a rolling 4-quarter basis: (i) its consolidated senior debt will not exceed three times its consolidated EBITDA, increasing to 3.5 times upon the consummation of a material acquisition and for a period extending to the end of the second full quarter after completion of that acquisition. Senior debt is defined to exclude subordinated debt and non-recourse debt from total debt. EBITDA is calculated as net earnings before unrealized gains and losses on financial instrument contracts, interest and financing expense, acquisition costs, taxes, depreciation, depletion and accretion and any other non-cash amounts which are added back or deducted from net earnings in accordance with IFRS in the statement of cash flows; (ii) its consolidated total debt (excluding, for certainty, any convertible debentures) will not exceed four times its consolidated EBITDA (similarly calculated), and (iii) its consolidated senior debt will not exceed one-half of its total capitalization (calculated as the aggregate of consolidated total debt, the principal amount of convertible debentures and consolidated shareholders' equity), increasing to 55 percent upon the consummation of a material acquisition and for a period extending to the end of the second full quarter after completion of that acquisition.

## 9. CONVERTIBLE DEBENTURES

On March 7, 2011 the Company completed a convertible debenture and common share financing that included \$200.0 million principal amount of 5.75 percent convertible unsecured subordinated debentures and 14,400,000 common shares at \$13.90 per share as described in note 11. The 5.75 percent debenture issue costs were approximately \$7.8 million.

As at June 30, 2011 Progress had the following convertible unsecured subordinated debentures (the “Debentures”) outstanding. Each Debenture may be converted into common shares at the option of the holder at the applicable conversion price per common share noted below. The Company may elect to satisfy the interest and principal obligations by the issuance of common shares.

Debenture	Principal	Semi Annual Interest Payments	Conversion Price (\$/share)	Maturity Date
5.75%	200,000	June 30 and December 31	\$20.85	June 30, 2016
5.25%	200,000	April 30 and October 31	\$18.00	October 31, 2014
6.25%	75,000	March 31 and September 30	\$24.00	September 30, 2011

The 6.75 percent debentures matured and were settled on June 30, 2010.

After October 31, 2012, the Company may redeem the 5.25 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

After July 1, 2014, the Company may redeem the 5.75 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

The Debentures have been classified as debt, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as part of shareholders’ equity. The issue costs will be amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion and amortization of issue costs are expensed within other finance expenses on the consolidated statement of earnings and comprehensive income. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an eight percent rate for the 6.25 percent debentures, 8.3 percent for the 5.25 percent debentures and 8.75 percent for the 5.75 percent debentures which were the estimated rates for debt with similar terms at the time. If the Debentures are converted to shares, a portion of the value of the conversion feature under shareholders’ equity will be reclassified to shareholders’ capital along with the conversion price paid.

Debentures	Six Months Ended June 30							
	2011				2010			
	6.25%	5.25%	5.75%	Total	6.75%	6.25%	5.25%	Total
Principal, beginning of period	75,000	200,000	-	275,000	55,667	75,000	200,000	330,667
Issued	-	-	200,000	200,000	-	-	-	-
Principal, end of period	75,000	200,000	200,000	475,000	55,667	75,000	200,000	330,667
Debt portion, beginning of period	73,767	175,546	-	249,313	55,180	72,132	169,441	296,753
Issued	-	-	169,839	169,839	-	-	-	-
Accretion	493	2,239	1,253	3,985	258	487	2,185	2,930
Amortization of issue costs	326	835	463	1,624	229	325	835	1,389
Repayment	-	-	-	-	(55,667)	-	-	(55,667)
Debt portion, end of period	74,586	178,620	171,555	424,761	-	72,944	172,461	245,405
Equity portion, beginning of period <sup>1</sup>	3,624	17,082	-	20,706	1,918	3,624	17,082	22,624
Issued <sup>1</sup>	-	-	16,643	16,643	-	-	-	-
Expired	-	-	-	-	(1,918)	-	-	(1,918)
Equity portion, end of period <sup>1</sup>	3,624	17,082	16,643	37,349	-	3,624	17,082	20,706

(1) Net of the related deferred income tax

The total interest charged to earnings for the three and six months ended June 30, 2011 was \$6.6 million and \$11.1 million (2010 - \$4.7 million and \$9.4 million).

#### 10. PROVISIONS – DECOMMISSIONING OBLIGATIONS

Decommissioning obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the decommissioning obligations is approximately \$171.5 million which will be incurred over the next 40 years with the majority of costs incurred between 2018 and 2038. A risk-free rate of 3.5 percent (2010 - 3.5 percent) and an inflation rate of two percent were used to calculate the net present value of the decommissioning obligations.

The following reconciles the Company's decommissioning obligations:

	Six Months Ended June 30 2011	Year Ended December 31 2010
Balance, beginning of period	86,818	65,574
Liabilities incurred	1,894	5,245
Liabilities acquired	-	16,714
Liabilities disposed	(4,814)	(7,641)
Liabilities settled	(1,042)	(2,500)
Change in discount rate	144	6,568
Accretion expense	1,476	2,858
Balance, end of period	84,476	86,818

## 11. SHAREHOLDERS' EQUITY

An unlimited number of voting common shares may be authorized and issued. Each common share is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any dividends from the Company and in the assets in the event of termination or winding-up of the Company. All common shares are of the same class with equal rights and privileges.

### Shareholders' Capital

#### Common Shares of Progress Energy Resources Corp.

	Six Months Ended June 30			
	2011		2010	
	Number	Amount	Number	Amount
<b>Common Shares</b>				
Balance, beginning of period	214,876,567	2,561,870	165,283,517	1,944,738
Reduction of stated capital	-	(669,283)	-	-
Share based compensation	48,690	931	92,562	1,620
Dividend reinvestment program	1,153,029	14,208	298,569	3,679
Exercise of options	51,000	647	25,000	263
Issued for cash	14,400,000	200,160	47,630,000	600,138
Share issue costs (net of tax of \$1,819 and \$3,024, respectively)		(5,283)		(8,167)
<b>Balance, end of period</b>	<b>230,529,286</b>	<b>2,103,250</b>	<b>213,329,648</b>	<b>2,542,271</b>

On May 11, 2011, the shareholders of Progress approved a special resolution to reduce the stated capital of the common shares of Progress by \$669.3 million, an amount equal to the Company's deficit as at January 1, 2010 in accordance with IFRS. The deficit arose out of two fundamental reporting differences between IFRS and the previous GAAP, being the method of performing the impairment test for goodwill and the discount rate used to measure decommissioning obligations (refer to note 15) as well as the impact of distributions from the Company's previous income trust structure.

On March 7, 2011, Progress issued 14,400,000 common shares at a price of \$13.90 per share for gross proceeds of \$200.2 million (\$193.1 million net of issue costs). Pursuant to its existing subscription right, CPPIB agreed to subscribe for 2,116,800 common shares of Progress at a price of \$13.90 per share, for gross proceeds of \$29.4 million, which is included in the aggregate proceeds of the offering. The closing of the offering and CPPIB subscription were contingent upon one another.

On March 2, 2010, Progress issued 47,630,000 subscription receipts at a price of \$12.60 per subscription receipt for total gross proceeds of \$600.1 million (\$588.9 million net of issue costs). The financing was comprised of a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board ("CPPIB") and a concurrent \$250 million subscription receipt bought deal financing through a syndicate of underwriters. Each private placement subscription receipt and public subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, subject to the closing of the asset acquisition which occurred on March 31, 2010.

## Management of Capital Structure

Progress' objectives when managing its capital structure are (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, Progress includes share capital and total debt, which is made up of bank debt, convertible unsecured subordinated debentures and working capital (excluding the fair value of financial instruments). Progress manages the capital structure and makes adjustments in light of current economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Progress may issue new common shares, issue new debt, issue new debt to replace existing debt with different characteristics, adjust exploration and development capital expenditures, and acquire or dispose of assets. During the first quarter of 2011, Progress issued 14,400,000 common shares at a price of \$13.90 per share, as well as issued \$200.0 million principal amount of 5.75 percent convertible unsecured subordinated debentures described in note 9. On April 30, 2011 the Company amended and restated its bank credit facility to be a covenant-based facility rather than a borrowing base facility. This facility is a 3-year extendible revolving facility in the amount of \$650 million from a syndicate of lenders with an initial maturity date of April 29, 2014.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash working capital) stayed constant. At June 30, 2011 total debt was \$439.0 million and annualized cash flow from operating activities (before changes in non-cash working capital) for the six months ended June 30, 2011 was \$235.9 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 1.86. This ratio is acceptable to the Company in light of the current natural gas price environment.

There were no changes in the Company's approach to capital management during the period.

Progress is not subject to externally imposed capital requirements.

## Net Loss Per Share

The following table summarizes the weighted average shares used in calculating net loss per share:

	Three Months Ended June 30		Six Months Ended June 30	
Basic and Diluted Loss per Share	2011	2010	2011	2010
Net loss for the period	(11,436)	(22,832)	(9,810)	(67,540)
Weighted average shares – basic and diluted	230,396,741	213,259,297	224,896,007	189,708,365
Net loss per share – basic and diluted	(\$0.05)	(\$0.11)	(\$0.04)	(\$0.36)

Shares potentially issuable on the exercise of outstanding stock options, restricted share units and performance units, and on the conversion of the Debentures for the three and six months ended June 30, 2011 and June 30, 2010 are anti-dilutive and are not included in the calculation of diluted weighted average shares.

## Share based compensation

The Company has established a share based compensation plan (the “Plan”) comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both restricted unit awards and performance unit awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The restricted unit awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance unit awards are similar to the restricted unit awards, however, a performance factor is applied to the grant on the vesting date. Both the restricted unit awards and performance unit awards vest at the end of a three year period and include accumulated dividends paid over the vesting period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan prior to 2011 vest one third in each of the second, third and fourth year anniversary dates from the date of grant. Stock options granted in 2011 vest one third in each of the first, second and third year anniversary dates for the date of grant. The options expire in five years from the date of grant.

On January 15, 2009 Progress Energy Trust (the “Trust”) and ProEx completed the plan of arrangement (the “Arrangement”) whereby ProEx acquired all of the issued and outstanding units of the Trust. The Trust unitholders received 0.8125 of a ProEx share for each trust unit held. Upon completion of the Arrangement, the Trust was liquidated and dissolved and Progress received all of the assets and assumed all of the liabilities of the Trust. Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the LTI Component as well as stock options of ProEx, will continue until their original vesting dates.

For the three and six months ended June 30, 2011, \$2.0 million and \$4.9 million was charged to share based compensation expense (2010 – \$3.7 million and \$6.4 million) and \$0.3 million and \$0.7 million was capitalized (2010 – \$0.5 million and \$0.8 million ) relating to the total performance units, stock options and shares under the LTI component.

### Stock options

As at June 30, 2011, there were 7,264,734 stock options outstanding. This includes stock options which were granted under the Plan and stock options that have continued from ProEx’s original stock option plan.

The number and weighted average exercise price of stock options are as follows:

	Number of options	Weighted average exercise price
Balance, January 1, 2010	5,872,533	11.93
Granted	281,000	12.39
Forfeited	(145,332)	12.39
Expired	(18,000)	15.46
Exercised	(38,334)	11.02
Balance, December 31, 2010	5,951,867	11.93
Granted	1,452,367	12.38
Forfeited	(52,667)	11.98
Expired	(35,833)	14.64
Exercised	(51,000)	12.68
Balance, June 30, 2011	7,264,734	11.79
Exercisable, June 30, 2011	2,595,034	11.90

The following table summarizes stock options outstanding and exercisable at June 30, 2011.

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding at period end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
\$9.35 to \$11.99	5,025,334	2.55	11.76	1,973,000	11.31
\$12.00 to \$14.62	2,147,400	3.64	12.83	530,034	13.52
\$14.70 to \$16.50	92,000	1.12	15.35	92,000	15.35
	7,264,734	2.85	11.79	2,595,034	11.90

The Company accounts for its share based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to officers, directors and employees with a corresponding increase to contributed surplus. Progress has estimated a 10 percent forfeiture rate for the stock options.

The fair value of the options granted during the three and six months ended June 30, 2011 and 2010 were estimated on the date of grant using a Black Scholes-Merton option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Risk free interest rate (%)	1.55	2.22	1.64	2.32
Expected life (years)	3.00	3.83	3.00	3.83
Expected volatility (%)	38	47	42	47
Expected dividend yield (%)	2.7	3.2	3.2	3.2
Weighted average fair value of options granted (\$)	3.20	3.80	2.95	3.88

The expected volatility is calculated based on historical trading prices of Progress since the Arrangement was completed on January 15, 2009.

#### Share units

The activity for the period January 1, 2010 to June 30, 2011 relating to the Company's Share Unit Plan which includes both restricted units and performance units as described above, is as follows:

Restricted Units	
Balance, January 1, 2010	93,259
Granted	88,265
Settled	(950)
Forfeited	(1,175)
Balance, December 31, 2010	179,399
Granted	-
Settled	(3,612)
Forfeited	(1,800)
Balance, June 30, 2011	173,987

Vesting Date	
2011	2,325
2012	87,072
2013	84,590
<b>Total</b>	<b>173,987</b>

Performance Units	
Balance, January 1, 2010	259,950
Granted	281,050
Settled	(2,790)
Forfeited	(14,635)
Balance, December 31, 2010	523,575
Forfeited	(7,600)
<b>Balance, June 30, 2011</b>	<b>515,975</b>

Vesting Date	
2011	8,119
2012	247,618
2013	260,238
<b>Total</b>	<b>515,975</b>

On July 4, 2011 10,445 common shares were issued to settle those share units vesting under an employee's initial grant.

Subsequent to June 30, 2011, the Company granted 84,450 restricted units and 230,775 performance units.

#### Share Appreciation Rights (SARs)

ProEx had a Share Appreciation Rights (SARs) plan that allowed for the issuance of SARs to certain employees, which entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of common shares on the date of surrender. SARs vest equally over a three year period. The exercise price was based on the market price at the time of grant. At June 30, 2011, 65,000 (2010 – 65,000) SARs were outstanding at an average price of \$13.99. Compensation expense relating to the SARs for the three and six months ended June 30, 2011 was \$nil (2010 – \$nil).

#### Long Term Incentive Component of the Trust

Awards granted under the LTI component will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. For the six months ended June 30, 2011, 8,209 common shares were issued to settle LTI amounts that vested. As at June 30, 2011 5,394 common shares remain outstanding under the LTI component at an average value of approximately \$17.13 per share.

## Performance Unit Incentive Plan

The outstanding performance units that had been granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees hired their initial grant vests 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust's executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company's option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

As at June 30, 2011, there are 350,064 performance units outstanding which vest on July 4, 2011, the amounts of which have been adjusted by 0.8125 of a common share for each Trust unit as specified in the Arrangement. The stock based compensation expense is calculated using the current estimated performance factor for each performance unit grant based on the Company's operating performance and the Company has estimated a 11 percent forfeiture rate. Actual performance factors will not be determined until the end of the performance period. On July 4, 2011, 484,827 common shares were issued to settle the performance units granted in 2008 that vested at a performance factor of 1.375 times. As a result, \$8.4 million was transferred from contributed surplus to shareholders' capital.

On July 2, 2010 485,590 common shares were issued to settle the performance units granted in 2007 that vested at a performance factor of 1.5 times. As a result, \$7.6 million was transferred from contributed surplus to shareholders' capital.

### Performance Units of the Trust<sup>1</sup>

Balance, January 1, 2010	717,718
Performance factor adjustment <sup>2</sup>	167,639
Settled <sup>2</sup>	(492,027)
Forfeited	(11,945)
Balance, December 31, 2010	381,385
Performance factor adjustment <sup>2</sup>	10,055
Settled <sup>2</sup>	(36,869)
Forfeited	(4,507)
Balance, June 30, 2011	350,064

### Vesting Date

2011	350,064
Total	350,064

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) For 2010 the performance units were settled at a performance factor of 1.5 times resulting in the issuance of an additional 167,639 common shares. On June 22, 2011 the performance units granted in 2008 to the directors were settled at a performance factor of 1.375. Subsequent to June 30, 2011 the performance units granted to the employees and executives were settled at a performance factor of 1.375 resulting in the issuance of 484,827 common shares.

Units under LTI Component <sup>1</sup>	
Balance, January 1, 2010	100,956
Additional grant <sup>2</sup>	18,189
Settled	(104,348)
Forfeited	(1,837)
Balance, December 31, 2010	12,960
Additional grant <sup>2</sup>	1,643
Settled	(8,209)
Forfeited	(1,000)
Balance, June 30, 2011	5,394

Vesting Date	
2011	5,394
Total <sup>2</sup>	5,394

- (1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (2) An additional 15 percent grant will be paid to LTI holders if a holder holds the shares they receive on the second anniversary date for one additional year. This would result in an additional 1,349 common shares being issued by the Company.

## 12. OTHER FINANCE EXPENSES

Other finance expenses for the three and six months ended June 30, 2011 and 2010 include the following:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
Accretion of decommissioning obligations	720	734	1,476	1,428
Accretion of convertible debentures	2,370	1,477	3,985	2,930
Amortization of convertible debenture issue costs	946	693	1,624	1,389
Unrealized loss (gain) on investments (held for trading)	2,746	(1,519)	1,194	58
	6,782	1,385	8,279	5,805

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
Accounts receivable	14,037	6,935	27,609	(2,939)
Prepaid expenses and deposits	(2,088)	512	(875)	(1,158)
Accounts payable	(55,869)	(30,379)	(31,235)	8,052
Change in non-cash working capital	(43,920)	(22,932)	(4,501)	3,955
Relating to:				
Investing activities	(45,277)	(27,828)	(14,510)	4,492
Financing activities	(277)	(1,047)	352	(607)
Operating activities	1,634	5,943	9,657	70

## 14. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The following tables provide fair value measurement information for financial assets and liabilities as of June 30, 2011 and December 31, 2010. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and bank debt included in the consolidated statement of financial position approximate their fair value due to the short term nature of those instruments or the indexed rate of interest on the bank debt. These assets and liabilities, except cash and cash equivalents, are not included in the following tables. The fair value of the cash and cash equivalents, derivative natural gas contracts ("financial instruments"), investments and the convertible debentures as at June 30, 2011 and December 31, 2010 are as follows:

June 30, 2011	Carrying Amount	Fair Value	Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
<b>Financial assets:</b>					
Cash and cash equivalents	5,538	5,538	5,538		
Investments	9,472	9,472	9,472	-	-
<b>Financial liabilities:</b>					
Convertible debentures <sup>1</sup>	475,396	491,835	-	-	-
Derivative natural gas contracts	1,839	1,839	-	1,839	-

(1) Carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion.

December 31, 2010	Carrying Amount	Fair Value	Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
<b>Financial assets:</b>					
Derivative natural gas contracts	3,928	3,928	-	3,928	-
Investments	10,667	10,667	10,667	-	-
<b>Financial liabilities:</b>					
Convertible debentures <sup>1</sup>	277,570	278,708	-	-	-

(1) Carrying value includes the debt and equity portion of the convertible debentures and excludes the deferred income tax impact of the debentures charged against the equity portion.

All of Progress' cash and cash equivalents, derivative natural gas contracts and investments are transacted in active markets. Progress classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

In light of the current economic conditions, the Company continues to monitor its accounts receivable and its allowance for doubtful accounts. As at June 30, 2011 there have been no impairment issues. The Company has an allowance for doubtful accounts of approximately \$0.9 million.

Investments include 8,300,000 Class A common shares of Seaview Energy Inc. (“Seaview”) and 431,379 shares of Crocotta Energy Inc. (“Crocotta”). Both investments have been classified as held for trading and are measured at fair value each reporting period. Based on Seaview’s closing trading price on June 30, 2011 of \$0.99 per share, an unrealized loss of \$3.0 million and \$1.7 million, respectively, were recognized for the three and six months ended June 30, 2011 (2010 - \$1.4 million gain and \$0.3 million loss) on the revaluation of the shares to \$8.2 million at June 30, 2011 (2010 - \$8.8 million). The fair value of the investment in Crocotta, based on the closing trading price on June 30, 2011 of \$2.91 per share, was \$1.3 million (2010 - \$0.7 million), resulting in an unrealized gain of \$0.3 million and \$0.5 million, respectively, for the three and six months ended June 30, 2011 (2010 - \$0.1 million and \$0.2 million gain).

#### Credit risk

The Company’s accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. The Company routinely assesses the financial strength of its customers.

The Company may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with highly rated major financial institutions.

At June 30, 2011, financial assets on the balance sheet are comprised of cash and cash equivalents, accounts receivables and held for trading investments.

The maximum credit exposure at June 30, 2011 is the carrying amount of cash and cash equivalents and accounts receivable of \$42.2 million combined. The cash and cash equivalents are held by a major Canadian chartered bank with an investment grade credit rating. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25<sup>th</sup> day of the following month. The Company markets its production to customers with investment grade credit ratings, if available in the area of production, or seeks parental guarantees and letters of credit. Included in accounts receivable is \$26.2 related to the sale of petroleum and natural gas and was received April 25, 2011. The Company’s most significant customer, a Canadian petroleum and natural gas marketer, accounts for \$6.4 million of the accounts receivable balance at June 30, 2011. The accounts receivable balance also includes \$13.6 million from joint venture partners relating to the recovery of their interest in operating costs and capital spent. The largest amount owing from one partner was \$4.2 million. As the operator of properties, Progress has the ability to not allocate production to joint venture partners who are in default of amounts owing. At June 30, 2011 the allowance for doubtful accounts was \$0.9 million.

#### Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The financial liabilities on its statement of financial position consist of accounts payable, bank debt and the Debentures. As described in note 8, Progress amended and restated its bank credit facility in the amount of \$650 million to be a covenant-based facility rather than a borrowing base facility. The facility is a three year extendible revolving facility with a syndicate of lenders with an initial maturity of April 29, 2014. The Debentures mature on September 30, 2011, October 31, 2014 and June 30, 2016. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows (see also “Management of Capital Structure” in note 11). The Company had no defaults or breaches on its bank debt or any of its financial liabilities. In addition, to achieve the objective of meeting obligations associated with its financial liabilities, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. As a result, the Company may adjust capital expenditures if necessary and may consider acquisition and disposition opportunities.

The following are contractual maturities of financial liabilities, including estimated interest payments at June 30, 2011:

June 30, 2011	Carrying Amount	Total Contractual cash flows	2011	2012	2013 to 2014	2015 and Beyond
<b>Non-Derivative Financial liabilities:</b>						
Accounts payable and accrued liabilities	48,860	48,860	48,860	-	-	-
Convertible debentures <sup>1</sup>	478,218	579,908	98,408	22,000	242,250	217,250
<b>Derivative Financial liabilities:</b>						
Natural gas contracts	1,839	3,023	3,023	-	-	-

(1) Carrying value includes the debt and equity portion of the convertible debentures and the related interest payable as at June 30, 2011 and excludes the deferred income tax impact of the debentures charged against the equity portion.

#### Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices that could affect the Company's earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

The valuation of the financial assets and liabilities on the balance sheet at June 30, 2011 would not be directly impacted by changes in currency rates. Currency rates influence petroleum and natural gas prices, however this influence on commodity prices and the resulting impact on financial assets and liabilities cannot be accurately quantified. In regards to commodity prices, the financial instruments directly affected by changes in commodity prices are the derivative natural gas contracts listed below. Assuming a \$0.25 change to the price per thousand cubic feet of natural gas, the fair value change in the natural gas contracts would have impacted net earnings for the three and six months ended June 30, 2011 by approximately \$1.0 million based on the volumes and remaining terms of the contracts as at June 30, 2011 outlined below. The Company's financial instruments are not directly impacted by changes in crude oil prices. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of the derivative natural gas contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

#### Currency risk

The Company does not sell or transact in any foreign currency, however, the United States ("US") dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result, can affect the fair value and future cash flows of derivative natural gas contracts, however, given it is an indirect influence, the impact of changing exchange rates cannot be quantified. The Company has derivative natural gas contracts outstanding at June 30, 2011 based on both Canadian and US natural gas market indices. The "basis hedges" outlined in the table below are the only instruments the Company had that are directly affected by changes in the US/Canadian exchange rate. A \$0.05 increase or decrease in the US/Canadian exchange rate would have resulted in a \$nil change to net earnings for the three and six months ended June 30, 2011 as a result of the change in fair value of the instruments net of deferred income taxes based on the terms of the instruments below. The Company's other financial assets and liabilities are not directly affected by a change in currency rates.

#### Interest rate risk

The Company is exposed to interest rate risk on its outstanding bank debt and Debentures. The bank debt has a floating interest rate and consequently changes to interest rates would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at June 30, 2011. Changes in market interest rates will result in fluctuations to the fair value of the Debentures given their fixed interest rates. An increase or decrease of one percent to the effective interest rate on the bank debt of the Company, would have impacted the three and six months ended June 30, 2011 net earnings by \$nil and \$0.9 million, respectively.

## Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Petroleum and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also world economic events that dictate the levels of supply and demand.

The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital. The Company does not apply hedge accounting for these contracts. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. For the three months ended June 30, 2011 the Company's risk management program had a net realized loss of \$0.9 million (2010 - \$3.9 million gain). For the six months ended June 30, 2011 the Company's risk management program had a net realized gain of \$4.0 million (2010 - \$3.0 million gain).

At June 30, 2011 the fair value of the derivative natural gas contracts, determined based on the amounts the Company would receive or pay to terminate the contracts was a liability of \$1.8 million (2010 - \$9.5 million asset), resulting in an unrealized loss of \$1.7 million and \$5.8 million for the three and six months ended June 30, 2011 (2010 - \$7.9 million loss and \$6.6 million gain).

Contracts outstanding in respect to financial instruments are as follows:

### Natural gas

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium	Term
Bought Put Option	5,000 gj/d	AECO	\$3.610	\$0.3400	Feb 1/11 to Oct 31/11
Bought Put Option	5,000 gj/d	AECO	\$3.650	\$0.3350	Feb 1/11 to Oct 31/11
Bought Put Option	5,000 gj/d	AECO	\$3.830	\$0.3570	Feb 1/11 to Oct 31/11
Bought Put Option	10,000 gj/d	AECO	\$3.760	\$0.3400	May 1/11 to Dec 31/11
Bought Put Option	10,000 gj/d	AECO	\$3.785	\$0.3475	May 1/11 to Dec 31/11
Bought Put Option	10,000 gj/d	AECO	\$3.780	\$0.3500	May 1/11 to Dec 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Cost/ Premium	Term
Swap – call spread	5,000 gj/d	AECO	\$3.60 - \$4.60	\$0.26	Feb 1/11 to Oct 31/11
Swap – call spread	5,000 gj/d	AECO	\$3.65 - \$4.65	\$0.26	Feb 1/11 to Oct 31/11
Swap – call spread	5,000 gj/d	AECO	\$3.81 - \$4.81	\$0.26	Feb 1/11 to Oct 31/11

Contracts	Volume	Pricing Point	Differential	Term
Swap – basis hedge	30,000 mmbtu/d	Nymex	(\$0.5000)	May 1/11 to Dec 31/11
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.4950)	May 1/11 to Dec 31/11
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6300)	Jan 1/12 to Dec 31/12
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6250)	Jan 1/12 to Dec 31/12
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6175)	Jan 1/12 to Dec 31/12
Swap – basis hedge	10,000 mmbtu/d	Nymex	(\$0.6150)	Jan 1/12 to Dec 31/12

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Sold Calls	10,000 gj/d	AECO	\$7.575	Jan 1/11 to Dec 31/11
Sold Calls	10,000 gj/d	AECO	\$7.500	Jan 1/11 to Dec 31/11

## 15. TRANSITION TO IFRS

Progress' accounting policies under IFRS differ from those followed under previous GAAP. These accounting policies have been applied for the three and six months ended June 30, 2011 and the comparative information for the three and six months ended June 30, 2010.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit category on the statement of financial position when appropriate.

On transition to IFRS on January 1, 2010 Progress used certain exemptions allowed under IFRS 1 "First Time Adoption of International Reporting Standards". The exemptions used were:

*Full Cost Accounting* – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Progress has used reserve values as at January 1, 2010 to allocate the cost of development and production assets to CGUs.

*Business Combinations* – IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous GAAP.

*Share based compensation* – IFRS 1 allows an entity an exemption on IFRS 2, "Share-Based Payments" to equity instruments which vested before Progress' transition date to IFRS.

*Decommissioning Obligation* – As Progress elected to use the oil and gas exemption, a decommissioning obligation exemption was also used that allows for the remeasurement of decommissioning obligations on IFRS transition to be offset to retained earnings/deficit.

Statement of Financial Position (Reconciliation of Equity):

<i>As at June 30, 2010</i> <i>(\$ thousands)</i>	Previous GAAP	IFRS Adjustments	Note	IFRS
<b>ASSETS</b>				
Current Assets				
Accounts receivable	44,025			44,025
Prepaid expenses and deposits	11,593			11,593
Investments	9,543			9,543
Fair value of financial instruments	9,486			9,486
	74,647			74,647
Exploration and evaluation assets	-	298,052	(a)	298,052
Property, plant and equipment	2,362,612	(297,550)	(a,b,f,g)	2,065,062
Goodwill	414,655	(405,655)	(c)	9,000
	2,851,914	(405,153)		2,446,761
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable and accrued liabilities	61,915			61,915
Dividends payable	21,333	2,337	(e)	23,670
Deferred income taxes	2,352	(2,352)	(i)	-
	85,600	(15)		85,585
Bank debt	178,384			178,384
Convertible debentures	245,405			245,405
Decommissioning obligations	41,159	41,661	(d)	82,820
Deferred income taxes	48,821	(2,382)	(i)	46,439
	599,369	39,264		638,633
<b>SHAREHOLDERS' EQUITY</b>				
Shareholders' capital	2,542,271			2,542,271
Convertible debentures	28,257	(7,551)	(i)	20,706
Contributed surplus	24,660	674	(e)	25,334
Deficit	(342,643)	(437,540)	(b,c,d,e,f,h,i)	(780,183)
	2,252,545	(444,417)		1,808,128
	2,851,914	(405,153)		2,446,761

Reconciliation of consolidated statement of earnings (loss) and comprehensive income (loss) for the three months ended June 30, 2010:

<i>Three Months Ended June 30, 2010</i> <i>(\$ thousands, except per share amounts)</i>	Previous GAAP	Effect of transition to IFRS	Note	IFRS
<b>REVENUE</b>				
Petroleum and natural gas	115,859			115,859
Royalties	(16,918)			(16,918)
	98,941			98,941
Realized gain on financial instruments	3,855			3,855
Unrealized loss on financial instruments	(7,926)			(7,926)
Unrealized gain on investments	1,519	(1,519)	(j)	-
	96,389	(1,519)		94,870
<b>EXPENSES</b>				
Operating	25,542			25,542
Transportation	12,837			12,837
Depletion and depreciation	70,482	(10,887)	(f)	59,595
General and administrative	4,056	(215)	(e)	3,841
Share based compensation	3,374	356	(e)	3,730
Loss on divestitures	-	9,634	(h)	9,634
Other expenses	-	240	(g)	240
	116,291	(872)		115,419
	(19,902)	(647)		(20,549)
Interest and finance expenses	(9,932)	2,170		(7,762)
Other finance expenses	-	(1,385)	(j)	(1,385)
Loss before taxes	(29,834)	138		(29,696)
<b>TAXES</b>				
Deferred income taxes (reduction)	(6,546)	(318)	(i)	(6,864)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(23,288)</b>	<b>456</b>		<b>(22,832)</b>
<b>NET LOSS PER SHARE</b>				
Basic and diluted	(\$0.11)			(\$0.11)

Reconciliation of consolidated statement of earnings (loss) and comprehensive income (loss) for the six months ended June 30, 2010:

<i>Six Months Ended June 30, 2010</i> <i>(\$ thousands, except per share amounts)</i>	Previous GAAP	Effect of transition to IFRS	Note	IFRS
<b>REVENUE</b>				
Petroleum and natural gas	229,330			229,330
Royalties	(36,806)			(36,806)
	192,524			192,524
Realized gain on financial instruments	2,983			2,983
Unrealized gain on financial instruments	6,638			6,638
Unrealized loss on investments	(58)	58	(j)	-
	202,087	58		202,145
<b>EXPENSES</b>				
Operating	44,849			44,849
Transportation	22,385			22,385
Depletion and depreciation	126,618	2,091	(b,f)	128,709
Goodwill impairment	-	34,226	(c)	34,226
General and administrative	7,599	(223)	(e)	7,376
Share based compensation	6,132	315	(e)	6,447
Loss on divestitures	-	9,634	(h)	9,634
Other expenses	-	2,146	(g)	2,146
	207,583	48,189		255,772
	(5,496)	(48,131)		(53,627)
Interest and finance expenses	(21,612)	4,319		(17,293)
Other finance expenses	-	(5,805)	(i)	(5,805)
Loss before taxes	(27,108)	(49,617)		(76,725)
<b>TAXES</b>				
Deferred income taxes (reduction)	(4,584)	(4,601)	(i)	(9,185)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(22,524)</b>	<b>(45,016)</b>		<b>(67,540)</b>
<b>NET LOSS PER SHARE</b>				
Basic and diluted	(\$0.12)			(\$0.36)

Reconciliation of consolidated statement of cash flows for the three months ended June 30, 2010:

<i>Three Months Ended June 30, 2010</i> <i>(\$ thousands)</i>	Previous GAAP	Effect of transition to IFRS	Note	IFRS
<b>OPERATING ACTIVITIES</b>				
Net loss	(22,524)	456		22,832
Unrealized loss on financial instruments	7,926			7,926
Unrealized gain on investments	(1,519)	1,519	(j)	-
Depletion and depreciation	70,482	(10,887)	(f)	59,595
Loss on divestitures	-	9,634	(h)	9,634
Convertible debentures accretion	1,477	(1,477)	(j)	-
Amortization of convertible debenture issue costs	693	(693)	(j)	-
Other finance expenses	-	1,385	(j)	1,385
Share based compensation expense	3,374	356	(e)	3,730
Decommissioning expenditures	(1,359)			(1,359)
Deferred income taxes (reduction)	(6,546)	(318)	(i)	(6,864)
	51,240	(25)		51,215
Changes in non-cash working capital	5,943			5,943
	57,183	(25)		57,158
<b>FINANCING ACTIVITIES</b>				
Increase in bank debt	39,311			39,311
Repayment of convertible debentures	(55,667)			(55,667)
Exercise of options	263			263
Cash dividends	(18,933)	(215)	(e)	(19,148)
Share issue costs	130			130
Changes in non-cash working capital	(1,047)			(1,047)
	(35,943)	(215)		(36,158)
<b>INVESTING ACTIVITIES</b>				
Asset acquisition	376	240	(g)	616
Asset disposition	42,854	1,619	(h)	44,473
Capital expenditures – property, plant and equipment	(36,642)	18,370	(a)	(18,272)
Capital expenditures – exploration and evaluation assets		(19,989)	(a)	(19,989)
Changes in non-cash working capital	(27,828)			(27,828)
	(21,240)	240		(21,000)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	-	-		-
Cash and cash equivalents, beginning of period	-			-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	-	-		-

Reconciliation of consolidated statement of cash flows for the six months ended June 30, 2010:

<i>Six Months ended June 30, 2010</i> <i>(\$ thousands)</i>	Previous GAAP	Effect of transition to IFRS	Note	IFRS
<b>OPERATING ACTIVITIES</b>				
Net loss	(22,524)	(45,016)		(67,540)
Unrealized gain on financial instruments	(6,638)			(6,638)
Unrealized loss on investments	58	(58)	(j)	-
Depletion and depreciation	126,618	2,091	(b,f)	128,709
Goodwill impairment	-	34,226	(c)	34,226
Loss on divestitures	-	9,634	(h)	9,634
Convertible debentures accretion	2,930	(2,930)	(j)	-
Amortization of convertible debenture issue costs	1,389	(1,389)	(j)	-
Other finance expenses	-	5,805	(j)	5,805
Share based compensation expense	6,132	315	(e)	6,447
Decommissioning expenditures	(3,440)			(3,440)
Deferred income taxes (reduction)	(4,584)	(4,601)	(i)	(9,185)
	99,941	(1,923)		98,018
Changes in non-cash working capital	70			70
	100,011	(1,923)		98,088
<b>FINANCING ACTIVITIES</b>				
Decrease in bank debt	(99,494)			(99,494)
Repayment of convertible debentures	(55,667)			(55,667)
Issue of shares	600,138			600,138
Cash dividends	(34,151)	(223)	(e)	(34,374)
Exercise of options	263			263
Share issue costs	(11,191)			(11,191)
Changes in non-cash working capital	(607)			(607)
	399,291	(223)		399,068
<b>INVESTING ACTIVITIES</b>				
Asset acquisition	(389,233)	2,146	(g)	(387,087)
Asset disposition	42,854	1,619	(h)	44,473
Capital expenditures – property, plant and equipment	(157,415)	65,048	(a,h)	(92,367)
Capital expenditures – exploration and evaluation assets		(66,667)	(a)	(66,667)
Changes in non-cash working capital	4,492			4,492
	(499,302)	2,146		(497,156)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	-	-		-
Cash and cash equivalents, beginning of year	-			-
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	-	-		-

## Notes to reconciliations

### (a) IFRS 1 election for full cost oil and gas entities

The Company elected to use an IFRS 1 exemption whereby the previous GAAP full cost pool was used to measure exploration and evaluation assets and development and production assets on transition to IFRS as follows:

- (i) exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets at the amount that was recorded under previous GAAP; and
- (ii) the remaining full cost pool was allocated to the producing/development assets and components pro rata using reserve values.

This resulted in a transfer of \$206.4 million to exploration and evaluation assets and a corresponding decrease in property, plant and equipment on transition. As at June 30, 2010 the total exploration and evaluation assets were \$298.1 million, which included undeveloped land acquired in the first six months of 2010, including undeveloped land of the asset acquisition (note 6), net of expiries.

### (b) Impairment of property, plant and equipment (“PP&E”)

In accordance with IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which was required under the previous GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. For Progress, the recoverable amount is determined using fair value less cost to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs. There was no impairment to PP&E on transition on January 1, 2010. Included in the adjustments in the reconciliation of equity as at June 30, 2010 is a charge of \$19.7 million for the impairment of PP&E for certain CGU’s which was recognized through depletion and depreciation expense in the first quarter of 2010. In the fourth quarter of 2010, an additional impairment charge of \$119.9 million was recognized as additional depletion and depreciation expense due to continued decreasing natural gas prices. PP&E impairments can be reversed in the future if the recoverable amount increases.

### (c) Impairment of goodwill

In accordance with the standard, goodwill has been allocated to the specific CGUs that are expected to benefit from the acquisitions for the purpose of impairment testing. As a result, the impairment test for goodwill is now performed on a smaller portion of the Company’s assets than under the previous GAAP. The impact of the impairment test under IAS 36 on January 1, 2010 resulted in a write-down of goodwill of \$371.4 million with a corresponding increase to the deficit on the statement of financial position. In addition, the reconciliation of equity as at June 30, 2010 and the reconciliation of comprehensive income (loss) for the six months ended June 30, 2010 include an additional impairment charge to goodwill of \$34.2 million that was recognized in the first quarter of 2010 due to continued decreasing natural gas prices.

### (d) Decommissioning obligations:

Under the previous GAAP asset retirement obligations were discounted at a credit adjusted risk free rate of eight to nine percent. Under IFRS the estimated cash flows to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at the risk free rate in effect at the end of each reporting period. The change in the decommissioning obligations each period as a result of changes in the discount rate will result in an offsetting charge to PP&E. Upon transition to IFRS the impact of this change was a \$26.2 million increase in the decommissioning obligations with a corresponding increase to the deficit on the statement of financial position as at January 1, 2010.

As at June 30, 2010 the adjustment to the decommissioning obligations was \$41.7 million reflecting the adjustment on transition as well as the additional liabilities incurred on the asset acquisition described in note 6 and related capital activity for the first six months of 2010. The adjustment also reflects an increase to the liability of \$5.8 million due to a decrease in the risk free rate from transition to June 30, 2010.

As at December 31, 2010 the decommissioning obligations was \$44.5 million higher than under the previous GAAP due to the change in discount rate and its impact on the liabilities incurred or acquired during 2010.

As a result of the change in the discount rate, the decommissioning obligation accretion expense decreased by \$0.1 million and \$0.2 million for the three and six months ended June 30, 2010 as the lower discount rate

more than offset the impact of the higher obligation. In addition, under the previous GAAP, accretion of the discount was included in depletion and depreciation expense. Under IFRS it is included in other finance expenses.

(e) Share based compensation:

Under the previous GAAP, the Company recognized an expense related to share based compensation on a straight-line basis through the date of full vesting and did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate at the date of grant and update it throughout the vesting period. Adjustments to the performance factor are measured using the original grant date price under IFRS as opposed to treating the adjustment like an additional grant on the adjustment date. The impact on transition was an increase to contributed surplus of \$0.8 million with an offsetting increase to the opening deficit. For the three and six months ended June 30, 2010, an additional share based compensation expense of \$0.4 million and \$0.3 million, respectively, was recognized as compared to the previous GAAP to reflect the changes under IFRS.

Dividends are accrued when declared for grants outstanding under the Company's share unit plan and performance units from the Trust which resulted in a \$1.8 million increase to dividends payable on transition with an offsetting charge to the opening deficit. A total of \$2.3 million of dividends was accrued as at June 30, 2010 in relation to the share based compensation plans.

An adjustment of \$0.2 million was recognized for the three and six months ended June 30, 2010 for certain dividends related to share based compensation, which were previously treated as additional compensation through general and administrative expenses. The adjustment was made to reclassify the dividends to dividends and dividend payable from general and administrative expenses.

(f) Depletion policy:

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under the previous GAAP was based on units of production over proved reserves. In addition depletion was done on the Canadian cost centre under the previous GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (ie. fields or combinations thereof).

There was no impact of this difference on adoption of IFRS at January 1, 2010 as a result of the IFRS 1 election as discussed in note "a" above.

For the three months ended June 30, 2010 depletion and depreciation expense decreased \$10.9 million as compared to the previous GAAP. Depleting the oil and natural gas interests over proved plus probable reserves resulted in a decrease to depletion and depreciation of \$10.1 million and an additional \$0.8 million decrease was the result of reclassifying the accretion on decommissioning obligations to other finance expenses.

For the six months ended June 30, 2010, the net increase to depletion and depreciation expense was \$2.1 million. This was comprised of a reduction to the expense of \$16.1 million due to using proved plus probable reserves to deplete PP&E, an additional reduction of \$1.5 million for the reclassification of the accretion on decommissioning obligations to other finance expenses, both of which were more than offset by the additional \$19.7 million that was charged to depletion and depreciation on the impairment of PP&E as noted in note "b" above in the first quarter of 2010.

For the year ended December 31, 2010 depletion and depreciation was reduced by \$37.7 million as a result of changes to the depletion calculation, however this was more than offset by the \$19.7 million impairment recognized in the first quarter of 2010 and an additional \$119.9 million PP&E impairment recognized in the fourth quarter of 2010.

For exploration and evaluation assets, the cost of undeveloped land that expires during the period is charged as additional depletion and depreciation expense.

(g) Business combinations

In accordance with IFRS, internal transaction costs incurred on a business combination are expensed. Under the previous GAAP, these costs were capitalized as part of the acquisition. As a result, \$0.2 million and \$2.1 million was charged to other expenses for transaction costs incurred on the Asset Acquisition for the three and six months ended June 30, 2010.

(h) Gains and losses on divestitures

Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed. For the three and six months ended June 30, 2010, Progress recognized a \$9.6 million net loss sale of its central Alberta properties on June 30, 2010. On the statement of cash flows for the three and six months ended June 30, 2010, the proceeds for the central Alberta disposition were increased by \$1.6 million for a second minor disposition in central Alberta, previously deducted from the full cost pool.

(i) Deferred income taxes:

The adjustment to deferred income taxes on transition relates to both the opening adjustment to the decommissioning obligations and the treatment of temporary differences on convertible debentures. The opening adjustment for the decommissioning obligations was charged through the deficit on the statement of financial position thereby creating a temporary difference on the liability. The deferred income tax impact of the opening adjustment was a deferred income tax asset of \$6.5 million.

Under IFRS, the equity portion of the convertible debenture is treated as a temporary difference and deferred income tax is recognized. As the discounted amount is accreted up to the principal balance over time, the accretion results in a reversal of the temporary difference and reduction to the deferred tax liability originally recognized. A deferred income tax liability of \$6.5 million was recognized on transition.

Under IFRS there is no requirement to separate the portion of deferred income taxes related to current assets or liabilities. The amounts previously classified as current have been reclassified to long-term.

Adjustments to deferred income taxes have been made in regards to the adjustments noted above that resulted in a change to the temporary difference between tax and accounting values.

(j) Finance expenses

Under IFRS, finance expenses are separately reported in the statement of earnings and comprehensive income. Interest and financing expenses and other finance expenses are now reported below the first group of expenses on the statement of earnings and comprehensive income. Other finance expenses include the accretion and amortized issue costs of the Debentures, the accretion on the decommissioning obligations and unrealized gains or losses on investments.

(k) Major turnaround and overhaul expenditures

Under IFRS Progress capitalizes the cost of major plant turnarounds and overhauls and depreciates these costs over their useful life. Previously these were charged to operating expenses. No amount was capitalized for the three and six months ended June 30, 2010.

## 2011 SELECTED QUARTERLY INFORMATION

### FINANCIAL HIGHLIGHTS

(unaudited)

(\$ thousands except per share amounts)

	2010				2011	
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30
<b>Income Statement</b>						
Petroleum and natural gas revenue	113,471	115,859	105,305	107,957	117,115	117,340
Cash flow <sup>(1)</sup>	46,803	51,215	44,764	59,115	63,320	54,618
Per share – diluted	0.28	0.24	0.21	0.27	0.29	0.24
Cash dividends declared <sup>(2)</sup>	21,415	21,945	22,886	21,594	23,087	23,184
Per share	0.10	0.10	0.10	0.10	0.10	0.10
Net earnings	(44,708)	(22,832)	(7,644)	(104,184)	1,626	(11,436)
Per share – basic and diluted	(0.27)	(0.11)	(0.04)	(0.49)	0.01	(0.05)
<b>Capital Investment</b>						
Total capital expenditures	120,773	38,261	107,689	100,817	140,340	46,037
Asset Acquisitions <sup>(3)</sup>	387,703	(616)	-	-	-	-
Asset Dispositions <sup>(4)</sup>	-	(44,473)	680	140	(17,028)	(18,316)
<b>Total Debt</b>						
Working capital deficiency (surplus)	44,456	20,424	59,320	21,271	23,339	14,209
Bank debt	139,074	178,384	218,133	312,508	0	0
Convertible debentures	298,902	245,405	247,355	249,313	421,350	424,761
Total debt	482,432	444,213	524,808	583,092	444,689	438,970
Shareholders' capital	2,537,951	2,542,271	2,555,642	2,561,807	2,763,811	2,103,250
Common Shares (thousands except where otherwise stated)						
Shares outstanding, end of period	213,014	213,330	214,296	214,877	229,851	230,529
Weighted average shares - basic	165,896	213,259	214,222	214,787	219,334	230,397
Weighted average shares - diluted	166,763	214,004	214,735	215,430	220,179	232,000
Common Share Trading Statistics (\$)						
High	14.70	12.97	12.95	13.15	14.84	15.65
Low	11.25	10.67	10.86	10.30	11.88	13.60
Closing	11.77	12.37	11.67	12.70	13.96	13.73
Share volume traded (thousands)	49,171	58,964	42,396	41,164	47,742	53,836

<sup>(1)</sup> Cash flow represents the cash flow from operations before changes in non-cash working capital, which as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures for other entities.

<sup>(2)</sup> The dividends declared include distributions and dividends that grantees are entitled to on the vesting of the Share Unit Plan, the Long Term Incentive Plan and the Performance Unit Incentive Plan.

<sup>(3)</sup> Foothills asset acquisition on March 31, 2010.

<sup>(4)</sup> West Central Alberta asset disposition on June 30, 2010.

## 2011 SELECTED QUARTERLY INFORMATION

Operational Highlights ( <i>unaudited</i> )	2010				2011	
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30
<b>Daily Production</b>						
Natural gas (mcf/d)	178,993	226,898	222,540	225,594	233,488	209,202
Crude oil (bbls/d)	1,812	2,014	1,872	2,127	2,033	2,122
Natural gas liquids (bbls/d)	3,426	3,690	3,373	2,974	3,408	3,747
Total daily production (boe/d)	35,070	43,520	42,335	42,700	44,356	40,736
<b>Average Realized Prices</b>						
Natural gas (\$/mcf)	5.27	4.03	3.78	3.68	3.85	3.91
Crude oil (\$/bbl)	75.33	72.97	69.79	74.79	82.89	99.21
Natural gas liquids (\$/bbl)	52.68	56.40	51.35	60.48	67.85	66.57
<b>Highlights (\$/boe)</b>						
Weighted average sales price <sup>(1)</sup>	35.95	29.25	27.04	27.48	29.34	31.65
Realized gain (loss) on financial instruments	(0.28)	0.97	1.47	1.88	1.21	(0.23)
Royalties	(6.30)	(4.27)	(4.12)	(3.93)	(3.13)	(4.35)
Operating expenses	(6.12)	(6.45)	(6.07)	(5.58)	(5.38)	(5.75)
Transportation expenses	(3.02)	(3.24)	(3.24)	(3.22)	(3.13)	(3.41)
Operating Netbacks	20.23	16.26	15.08	16.63	18.91	17.91
General and administrative expense	(1.12)	(0.97)	(0.93)	(0.77)	(0.97)	(0.97)
Stock based compensation expense	(0.86)	(0.94)	(0.72)	(0.71)	(0.71)	(0.55)
Goodwill impairment	(10.85)	-	-	-	-	-
Unrealized gain (loss) on financial instruments	4.61	(2.00)	0.29	(1.71)	(1.03)	(0.45)
Gain (loss) on divestitures	-	(2.44)	0.14	0.38	1.29	(1.79)
Other expenses	(0.60)	(0.05)	-	-	-	-
Depletion and depreciation	(21.90)	(15.05)	(14.14)	(46.14)	(14.60)	(14.03)
	(10.49)	(5.19)	(0.28)	(32.32)	2.89	0.12
Interest and finance expenses	(3.01)	(1.96)	(1.61)	(1.82)	(1.91)	(2.10)
Other finance expenses	(1.40)	(0.35)	(0.52)	(0.60)	(0.38)	(1.83)
Net earnings (loss) before taxes	(14.90)	(7.50)	(2.41)	(34.74)	0.60	(3.81)
Deferred income taxes (reduction)	(0.74)	(1.73)	(0.45)	(8.22)	0.19	(0.72)
Net earnings (loss)	(14.16)	(5.77)	(1.96)	(26.52)	0.41	(3.09)

<sup>(1)</sup> Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

**CORPORATE INFORMATION OF  
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<sup>(2)</sup> Member of Reserve Committee  
<sup>(3)</sup> Member of Compensation  
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<sup>(4)</sup> Member of Corporate Governance and Nominating  
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**TRUSTEE AND TRANSFER AGENT**

Computershare Trust Company  
of Canada  
Calgary, Alberta

**STOCK EXCHANGE**

The Toronto Stock Exchange  
trading symbols:  
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6.25% Debentures – PRQ.DB.A  
5.25% Debentures – PRQ.DB.B  
5.75% Debentures –PRQ.DB.C

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