



## Provident Announces 2010 Second Quarter Results and August Cash Distribution

News Release 17-10  
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*All values are in Canadian dollars.*

**CALGARY, ALBERTA** - Provident Energy Trust (Provident) (TSX-PVE.UN; NYSE-PVX) announces its 2010 second quarter interim financial and operating results and the August cash distribution of \$0.06 per unit.

*“While two significant transactions impacted the results of the quarter, results from our core midstream business were in-line with our expectations, with first half gross operating margins exceeding those generated during the first half of 2009 by nine percent.” said Doug Haughey, President & Chief Executive Officer. “As we exit the second quarter, we are very excited about moving Provident forward as a pure play NGL midstream business.”*

### 2010 Second Quarter Summary

The second quarter of 2010 included the following two non-recurring events that significantly impacted second quarter and year to date earnings, adjusted EBITDA and funds flow from operations. Given the significant impact of these non-recurring events Provident has adjusted its funds flow and adjusted EBITDA to exclude their cash impact. These adjusted amounts are provided as an additional measure to evaluate the performance of Provident’s pure play infrastructure business in the period and to provide additional information to assess future earnings and funds flow generating capability. (Further discussion is included in the MD&A section of this release.)

### Sale of Provident’s Upstream Business Unit

On June 29, 2010, Provident completed the sale of its Upstream business unit to Midnight Oil Exploration Ltd. to form Pace Oil & Gas Ltd. The transaction proceeds were comprised of \$120 million in cash and approximately 32.5 million Pace shares issued directly to Provident unitholders. Total non-cash distributions to unitholders as a result of the sale of the Upstream business unit to Midnight were approximately \$309 million or \$1.16 per Provident unit. More information for calculating the cost basis related to the distribution can be found in Provident’s second quarter MD&A and on its website at [www.providentenergy.com](http://www.providentenergy.com).

### Midstream Financial Derivative Contract Buyout

Provident completed the buyout of all fixed price crude oil and natural gas swaps associated with its Midstream business unit for a total cost of \$199 million. The offsetting unrealized gain of \$177 million is not reflected in Provident’s funds flow from operations or adjusted EBITDA as it is a non-cash recovery. The buyout of these hedging positions will allow the Trust to refocus its commodity price risk management program by forward selling a portion of actual produced natural gas liquids (NGL) products and inventory. The base term will lock-in margins on a rolling 12 months, but may be extended to 24 months depending on market conditions and liquidity.

## Financial and Operational Summary

- Provident Midstream generated gross operating margin of \$49 million in the second quarter, a decrease of 12 percent compared to the prior year. The decrease in operating margin was primarily due to reduced NGL sales volumes and lower realized propane-plus unit margins as lower eastern gate natural gas flows at Empress resulted in higher extraction premiums. Propane-plus demand was also lower in the Western Canadian and U.S. marketplaces due to continued weakness in parts of the U.S. Midwest economy and lower condensate pricing. Year to date, the Trust has generated gross operating margin of \$138 million, a nine percent increase from the \$126 million generated in the first six months of 2009.
- Adjusted EBITDA from continuing operations, excluding the realized losses on the one time buyout of financial derivative instruments and strategic review and restructuring costs, was \$35 million in the second quarter, an increase of 25 percent from \$28 million in the second quarter of 2009. The increase is largely attributable to lower realized losses on financial derivative instruments and lower year over year general and administrative expenses.
- Cash distributions to unitholders in the second quarter were \$48 million (\$0.18 per unit) resulting in an adjusted payout ratio of 120 percent. The second quarter payout ratio reflects the seasonal nature of Provident's business. Year to date, Provident's adjusted payout ratio totaled 110 percent which includes the impact of the hedging losses incurred prior to the Midstream derivative contract buyout in April 2010.
- Provident Midstream sold approximately 94,000 barrels per day (bpd) of NGL in the second quarter, a decrease of nine percent from approximately 103,000 bpd in the second quarter of 2009. The decrease resulted from lower eastern gate natural gas flows at Empress and lower propane, butane and condensate demand in the Western Canadian and U.S. marketplaces due to warmer spring temperatures and continuing weakness in parts of the U.S. Midwest economy.
- Provident continues to achieve growth in its stable fee for service margin business. Gross operating margin for the commercial services business line was approximately \$15 million for the second quarter, a six percent increase from the comparable period in 2009. Provident's new condensate storage caverns that were brought online in the latter half of 2009 account for the majority of the increase.
- Provident maintained its financial flexibility during the quarter with net debt to adjusted funds flow from continuing operations for the twelve months ended June 30, 2010 of 2.5 to one.
- Provident entered into a new credit facility with its banking syndicate for the midstream business. The new \$500 million facility can be expanded to \$750 million under an accordion feature at the option of the Trust. The credit facility also provides a separate \$60 million Letter of Credit facility.

## Guidance Update

Provident confirms, given updated forward pricing assumptions, it expects to be at the lower end of its estimated 2010 adjusted EBITDA guidance range of \$200 to \$230 million. Provident's guidance range is subject to certain market and operational assumptions, including normal weather conditions, and excludes the one-time cost of the financial derivative instruments buyout in the second quarter of 2010 and strategic review and restructuring costs. This guidance is based, in part, on the revised 2010 second half average price assumptions of U.S. WTI crude \$78.20 per barrel, AECO gas Cdn\$3.85 per gj, Canadian/U.S. dollar exchange rate of 1.04 and a Mont Belvieu propane price at 58 percent of the WTI crude oil price.

## Conversion Update

Provident is finalizing its plans for a corporate conversion expected to occur near the end of the fiscal year. Clarity in the conversion legislation from the Government of Canada is expected soon, at which time Provident will update unitholders with more information regarding the corporate conversion approach and dividend policy. Based on available information, management expects Provident will be in a position, subject to the price environment, to utilize existing tax pools to offset corporate income taxes through 2013.

## August Cash Distribution

The August cash distribution of \$0.06 per unit is payable on September 15, 2010 and will be paid to unitholders of record as of August 23, 2010. The ex-distribution date will be August 19, 2010. The Trust's current annualized cash distribution rate is \$0.72 per trust unit. Based on the current annualized cash distribution rate and the TSX closing price on August 11, 2010 of \$6.83, Provident's yield is approximately 10.5 percent.

For unitholders receiving their cash distribution in U.S. funds, the August 2010 cash distribution will be approximately US\$0.06 per unit based on an exchange rate of 0.9564. The actual U.S. dollar cash distribution will depend on the Canadian/U.S. dollar exchange rate on the payment date and will be subject to applicable withholding taxes.

Provident Energy Trust is a Calgary-based, open-ended energy income trust that owns and manages a natural gas liquids (NGL) midstream business. Provident's Midstream facilities are strategically located in Western Canada and in the premium NGL markets in Eastern Canada and the U.S. Provident provides monthly cash distributions to its unitholders and trades on the Toronto Stock Exchange and the New York Stock Exchange under the symbols PVE.UN and PVX, respectively.

*This document contains certain forward-looking statements concerning Provident, as well as other expectations, plans, goals, objectives, information or statements about future events, conditions, results of operations or performance that may constitute "forward-looking statements" or "forward-looking information" under applicable securities legislation. Such statements or information involve substantial known and unknown risks and uncertainties, certain of which are beyond Provident's control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, pipeline design and construction, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities.*

*Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this news release, assumptions have been made regarding, among other things, commodity prices, operating conditions, capital and other expenditures, and project development activities.*

*Although Provident believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Provident can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Provident and described in the forward-looking statements or information.*

*The forward-looking statements or information contained in this news release are made as of the date hereof and Provident undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise unless so required by applicable securities laws. The forward-looking statements or information contained in this news release are expressly qualified by this cautionary statement.*

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## Consolidated financial and operational highlights

(\$ 000s except per unit data)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Revenue from continuing operations (net of financial derivative instruments)	\$ 354,982	\$ 235,669	51	\$ 774,232	\$ 642,319	21
Funds flow from continuing operations <sup>(1)</sup>	(170,646)	14,456	-	(124,165)	71,805	-
Funds flow from discontinued operations <sup>(1)</sup>	\$ (15,114)	\$ 34,060	-	\$ (2,436)	\$ 60,992	-
Funds flow from operations <sup>(1)</sup>	\$ (185,760)	\$ 48,516	-	\$ (126,601)	\$ 132,797	-
Adjusted EBITDA – continuing operations <sup>(2)</sup>	\$ (175,715)	\$ 20,383	-	\$ (124,631)	\$ 85,478	-
<b>Adjusted funds flow from continuing operations <sup>(3)</sup></b>	<b>\$ 39,840</b>	<b>\$ 21,858</b>	<b>82</b>	<b>\$ 86,807</b>	<b>\$ 79,481</b>	<b>9</b>
<b>Per weighted average unit – basic and diluted</b>	<b>\$ 0.15</b>	<b>\$ 0.08</b>	<b>88</b>	<b>\$ 0.33</b>	<b>\$ 0.31</b>	<b>6</b>
<b>Percent of adjusted funds flow from continuing operations paid out as declared distributions</b>	<b>120%</b>	<b>215%</b>	<b>(44)</b>	<b>110%</b>	<b>128%</b>	<b>(14)</b>
<b>Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs – continuing operations <sup>(2)</sup></b>	<b>\$ 34,771</b>	<b>\$ 27,785</b>	<b>25</b>	<b>\$ 86,341</b>	<b>\$ 93,154</b>	<b>(7)</b>
Distributions to unitholders	\$ 47,794	\$ 47,012	2	\$ 95,428	\$ 101,523	(6)
Per unit	\$ 0.18	\$ 0.18	-	\$ 0.36	\$ 0.39	(8)
Non-cash distribution in connection with the disposition of the Upstream business unit	\$ 308,690	\$ -	-	\$ 308,690	\$ -	-
Per unit	\$ 1.16	\$ -	-	\$ 1.16	\$ -	-
Net income (loss) from continuing operations	\$ 10,702	\$ (55,147)	-	\$ 34,556	\$ (60,708)	-
Per weighted average unit – basic and diluted	\$ 0.04	\$ (0.21)	-	\$ 0.13	\$ (0.23)	-
Net loss	\$ (344,875)	\$ (80,061)	331	\$ (405,334)	\$ (120,345)	237
Per weighted average unit – basic and diluted	\$ (1.30)	\$ (0.31)	324	\$ (1.53)	\$ (0.46)	231
Capital expenditures – continuing operations	\$ 3,442	\$ 12,441	(72)	\$ 10,414	\$ 22,431	(54)
Acquisitions – continuing operations	\$ 373	\$ -	-	\$ 22,447	\$ -	-
Weighted average trust units outstanding (000s)						
- basic and diluted <sup>(4)</sup>	265,379	261,003	2	264,939	260,199	2
Provident Midstream NGL sales volumes (bpd)	94,030	102,799	(9)	103,601	122,126	(15)

### Consolidated

(\$ 000s)	As at	As at	% Change
	June 30, 2010	December 31, 2009	
<b>Capitalization</b>			
Long-term debt (including current portion)	\$ 486,043	\$ 505,262	(4)
Unitholders' equity	\$ 585,559	\$ 1,381,399	(58)

<sup>(1)</sup> Represents cash flow from operations before changes in working capital and site restoration expenditures.

<sup>(2)</sup> Adjusted EBITDA is earnings before interest, taxes, depreciation, accretion and other non-cash items - see "Reconciliation of Non-GAAP measures".

<sup>(3)</sup> Adjusted funds flow from continuing operations excludes realized loss on buyout of financial derivative instruments and strategic review and restructuring costs.

<sup>(4)</sup> Includes dilutive impact of convertible debentures.

# Management's Discussion & Analysis

The following analysis provides a detailed explanation of Provident's operating results for the three and six months ended June 30, 2010 compared to the same time periods in 2009 and should be read in conjunction with the consolidated financial statements of Provident. This analysis has been prepared using information available up to August 11, 2010.

Provident Energy Trust operates a midstream business in Canada and the United States and extracts, processes, markets, transports and offers storage of natural gas liquids within the integrated facilities at Younger in British Columbia, Redwater and Empress in Alberta, Kerrobert in Saskatchewan, Sarnia in Ontario, Superior in Wisconsin and Lynchburg in Virginia. Effective in the second quarter of 2010, Provident's Canadian oil and natural gas production business ("Provident Upstream" or "COGP") was accounted for as discontinued operations and comparative figures have been reclassified to conform with this presentation (see note 9 to the interim consolidated financial statements).

The reporting focuses on the financial and operating measurements management uses in making business decisions and evaluating performance. This analysis contains forward-looking information and statements. See "Forward-looking information" at the end of the analysis for further discussion.

The analysis refers to certain financial and operational measures that are not defined in generally accepted accounting principles (GAAP) in Canada. These non-GAAP measures include funds flow from operations, adjusted funds flow from continuing operations, adjusted EBITDA and further adjusted EBITDA to exclude realized loss on buyout of financial derivative instruments and strategic review and restructuring costs.

Management uses funds flow from operations to analyze operating performance. Funds flow from operations is reviewed, along with debt repayments and capital programs in setting monthly distributions. Funds flow from operations as presented is not intended to represent cash flow from operations or operating profits for the period nor should it be viewed as an alternative to cash provided by operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to funds flow from operations throughout this report are based on cash provided by operating activities before changes in non-cash working capital and site restoration expenditures. See "reconciliation of non-GAAP measures".

Management uses adjusted EBITDA to analyze the operating performance of the business. Adjusted EBITDA as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Adjusted EBITDA as presented is not intended to represent cash provided by operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to adjusted EBITDA throughout this report are based on earnings before interest, taxes, depletion, depreciation, accretion, and other non-cash items ("adjusted EBITDA"). See "reconciliation of non-GAAP measures".

## **Second quarter non-recurring events**

The second quarter included two non-recurring events that impacted the second quarter and year-to-date earnings, adjusted EBITDA and funds flow from operations significantly. First, Provident sold the remainder of its Upstream business unit to move forward as a pure-play infrastructure midstream Trust. This transaction completed the sales process of the Upstream business and the Upstream business unit is now classified as discontinued operations. Strategic review and restructuring costs associated with the continued divestment of upstream properties, the final sale of Provident's Upstream business and the related separation of the business units were also incurred in this quarter. The second significant transaction was execution of a buyout of the fixed price derivative contracts that related to the Midstream business.

## **“Adjusted funds flow from continuing operations” and “Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs”**

Given the significant impact of the transactions summarized in the preceding paragraph and detailed below, the two additional non-GAAP measures of “Adjusted funds flow from continuing operations” and “Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs” have been provided and are also used in the calculation of certain ratios. The adjusted non-GAAP measures are provided as an additional measure to evaluate the performance of Provident’s pure-play infrastructure Midstream business in the period and to provide additional information to assess future funds flow and earnings generating capability. See “reconciliation of non-GAAP measures”.

### **Sale of Provident’s Upstream business**

On June 29, 2010, Provident announced the completion of the arrangement (the “Arrangement”) effecting the merger of Provident’s oil and natural gas production business with Midnight Oil Exploration Ltd. (Midnight) to form Pace Oil & Gas Ltd. (Pace). The transaction completed the final divestment of the Provident’s Upstream business in a series of transactions between September 2009 and June 2010. As a result of this transaction, Provident’s Upstream business was accounted for as discontinued operations, commencing with the second quarter of 2010 (see note 9 to the interim consolidated financial statements).

Total consideration from the transaction was \$428.7 million at the time of closing, consisting of \$120 million in cash, offset by a potential minor post-closing adjustment, and approximately 32.5 million shares of Pace valued at \$308.7 million. Associated transaction costs were \$8.1 million. Under the terms of the Arrangement, Provident unitholders divested a portion of each of their Provident units to receive 0.12225 shares of Pace, which was recorded as a non-cash distribution by the Trust, valued at \$308.7 million. Provident recorded a loss on sale of the Upstream business, amounting to \$319.0 million, net of tax, as part of net loss from discontinued operations.

In the second quarter, Provident completed an internal reorganization to reflect the continued divestment of its upstream properties and incurred costs to complete the separation of the business units. This resulted in staff reductions at all levels of the organization, including senior management. For the second quarter of 2010, strategic review and restructuring costs were \$28.7 million, of which \$11.4 million were attributable to continuing operations (2009 - \$9.5 million and \$7.4 million, respectively). For the six months ended June 30, 2010, strategic review and restructuring costs were \$29.8 million, of which \$11.9 million were attributable to continuing operations (2009 – \$9.7 million and \$7.7 million, respectively). The costs are comprised primarily of severance, consulting and legal costs.

### **Midstream financial derivative contract buyout**

In April, 2010, Provident completed the buyout of all fixed price crude oil and natural gas swaps associated with the Midstream business unit for a total realized cost of \$199.1 million. The carrying value of the specific contracts at March 31, 2010 was a liability of \$177.7 million, resulting in an offsetting unrealized gain in the second quarter of 2010. The \$199.1 million buyout represents a cash cost and reduces funds flow from operations and adjusted EBITDA. The offsetting unrealized gain of \$177.1 million is not reflected in Provident’s funds flow from operations or adjusted EBITDA as it is a non-cash recovery. Provident has retained certain participating crude oil and natural gas swaps and the NGL throughput and inventory contracts that utilize financial derivative instruments based directly on underlying NGL products. See “Commodity price risk management program”.

### **Reconciliation of non-GAAP measures**

The Trust calculates earnings before interest, taxes, depletion, depreciation, accretion and other non-cash items (adjusted EBITDA) and adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs within its MD&A disclosure. These are non-GAAP measures. A reconciliation to income (loss) from continuing operations before taxes follows:

Continuing operations (\$ 000s)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Income (loss) before taxes	\$ 4,220	\$ (78,880)	-	\$ 10,843	\$ (104,624)	-
Adjusted for:						
Interest expense	6,263	6,293	-	11,903	13,078	(9)
Unrealized gain offsetting buyout of financial derivative instruments	(177,723)	-	-	(177,723)	-	-
Unrealized (gain) loss on financial derivative instruments	(18,004)	78,868	-	13,594	160,038	(92)
Depreciation and accretion	10,964	9,485	16	21,728	18,897	15
Unrealized foreign exchange (gain) loss and other	(1,177)	1,997	-	(549)	407	-
Non-cash unit based compensation (recovery) expense	(258)	2,620	-	(4,427)	(2,318)	91
Adjusted EBITDA	\$ (175,715)	\$ 20,383	-	\$ (124,631)	\$ 85,478	-
Adjusted for:						
Realized loss on buyout of financial derivative instruments	\$ 199,059	\$ -	-	\$ 199,059	\$ -	-
Strategic review and restructuring costs	\$ 11,427	\$ 7,402	54	\$ 11,913	\$ 7,676	55
Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs	\$ 34,771	\$ 27,785	25	\$ 86,341	\$ 93,154	(7)

The following table reconciles funds flow from operations and adjusted funds flow from continuing operations with cash (used in) provided by operating activities:

Reconciliation of funds flow from operations (\$ 000s)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Cash (used in) provided by operating activities	\$ (233,235)	\$ 54,107	-	\$ (152,474)	\$ 186,775	-
Change in non-cash operating working capital	46,473	(6,801)	-	23,832	(58,162)	-
Site restoration expenditures						
- discontinued operations	1,002	1,210	(17)	2,041	4,184	(51)
Funds flow (used in) from operations	(185,760)	48,516	-	(126,601)	132,797	-
Funds flow from discontinued operations	15,114	(34,060)	-	2,436	(60,992)	-
Realized loss on buyout of financial derivative instruments	199,059	-	-	199,059	-	-
Strategic review and restructuring costs	11,427	7,402	54	11,913	7,676	55
Adjusted funds flow from continuing operations	\$ 39,840	\$ 21,858	82	\$ 86,807	\$ 79,481	9

## Funds flow from continuing operations and distributions

(\$ 000s, except per unit data)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
<b>Funds flow from continuing operations and distributions</b>						
Funds flow from continuing operations	\$ (170,646)	\$ 14,456	-	\$ (124,165)	\$ 71,805	-
Adjusted funds flow from continuing operations <sup>(1)</sup>	\$ 39,840	\$ 21,858	82	\$ 86,807	\$ 79,481	9
Per weighted average unit						
- basic and diluted <sup>(2)</sup>	\$ 0.15	\$ 0.08	88	\$ 0.33	\$ 0.31	6
Declared distributions	\$ 47,794	\$ 47,012	2	\$ 95,428	\$ 101,523	(6)
Per unit	\$ 0.18	\$ 0.18	-	\$ 0.36	\$ 0.39	(8)
Percent of adjusted funds flow from continuing operations paid out as declared distributions	120%	215%	(44)	110%	128%	(14)

<sup>(1)</sup> Adjusted funds flow from operations excludes realized loss on buyout of derivative instruments and strategic review and restructuring costs.

<sup>(2)</sup> Includes dilutive impact of unit options and convertible debentures.

Funds flow from operations includes the impact of the Midstream financial derivative contract buyout, as well as strategic review and restructuring costs associated with the separation and divestment of Provident's Upstream business unit. Adjusted funds flow from continuing operations is presented as a measure to evaluate the performance of Provident's pure-play infrastructure Midstream business in the period and to provide additional information to assess future funds flow generating capability. Second quarter 2010 adjusted funds flow from continuing operations was \$39.8 million, an 82 percent improvement from the \$21.9 million recorded in the second quarter of 2009. Lower gross operating margins during the second quarter of 2010 were more than offset by lower realized losses on financial derivative instruments as a result of the Midstream derivative contract buyout program, lower general and administrative expenses and a current income tax recovery.

For the six months ended June 30, 2010, adjusted funds flow from continuing operations was \$86.8 million, nine percent above the \$79.5 million in the same period of 2009. A nine per cent increase in gross operating margin in the first six months of 2010, as well as lower general and administrative expenses and a current income tax recovery was partially offset by realized losses on financial derivative instruments in the first six months of 2010 that were \$21.9 million higher than the comparable period in 2009. The realized losses in 2010 relate to the period prior to the buyout of the fixed price derivative contracts. Since the buyout, Provident has realized a \$0.4 million gain on financial derivative instruments to June 30, 2010.

Declared distributions in the first six months of 2010 totaled \$95.4 million, 110 percent of adjusted funds flow from continuing operations. This compares to \$101.5 million of declared distributions in the comparable period of 2009, 128 percent of adjusted funds flow from continuing operations. These ratios are impacted by realized losses on financial derivative instruments incurred prior to the buyout of the contracts in April 2010.

In addition to cash distributions, Provident also made a non-cash distribution to unitholders in the second quarter of 2010 relating to the disposition of Provident's Upstream business. This distribution was valued at \$308.7 million, or \$1.16 per unit.

## Outlook

The following outlook contains forward-looking information regarding possible events, conditions or results of operations in respect of the Trust that is based on assumptions about future economic conditions and courses of action. There are a number of risks and uncertainties which could cause actual events or results to differ materially from those anticipated by the Trust and described in the forward-looking information. See "Forward-looking information" in this MD&A for additional information regarding assumptions and risks in respect of the Trust's forward-looking information.

Midstream capital expenditures for the second quarter of 2010 totaled \$3.4 million, and \$10.4 million year-to-date. Management estimates a future annual run rate of approximately \$50 million to be allocated towards growth and

expansion capital and an additional \$10 million to maintenance subject to normal operating conditions. For 2011, Provident plans to deploy additional maintenance capital of up to \$15 million dollars to maintain the integrity and safe operations of its assets. Provident Midstream anticipates capital expenditures for 2010 to be approximately \$65 million revised from \$86 million as a result of ongoing project costs now expected to be incurred in the early part of 2011. Provident will also review accretive acquisition opportunities as they arise.

Provident continues to advance upgrades at its storage facility at Corunna, Ontario that will enhance operating flexibility and commercial opportunities at Sarnia. The Trust intends to spend approximately \$25 million through 2011 to complete an eight dual-spot loading/unloading rail rack and a fully automated two spot loading truck rack. These expansions will allow Provident to terminal and store NGLs for the local markets as well as from eastern Canada and the U.S. In addition, Provident is also reviewing future joint venture opportunities to facilitate the pipeline and rail movement of NGLs from the Marcellus Shale play in Pennsylvania to our storage facility at Corunna. Provident's Corunna facility is well situated to be a terminalling hub for NGLs from the rapidly growing Marcellus natural gas play. In combination with its ownership in the Sarnia fractionator, future services could include extraction, transportation, fractionation, storage and marketing of NGL products for Marcellus producers.

With the completion of a truck offloading facility at its Empress plant in March of 2010, Provident began receiving NGL mix volumes in the second quarter. Provident has negotiated term supply arrangements for the majority of the truck rack capacity. The Trust has also negotiated the purchase of additional third-party NGL mix from other Empress plant owners and in the Edmonton markets to increase Empress East supply volumes during the year to utilize fractionation capacity at Sarnia, Ontario. Provident anticipates supply volumes for Empress East to be similar to 2009 throughout the remainder of 2010.

At Redwater, Provident is developing three new 500,000 barrel, high rate multipurpose storage caverns that will be commissioned in 2011, 2012 and 2013. Provident has also begun construction of a brine pond to facilitate future cavern operations. On July 1, 2010, Enbridge's northward-flowing Southern Lights diluent pipeline entered service importing condensate to Fort Saskatchewan. Although the future impact on condensate prices cannot be fully predicted, Edmonton pricing has not been materially affected since the pipeline start-up. Over the medium to long-term, Provident expects that strong condensate demand will continue as a result of continuing investment in the Alberta oil sands by producers.

Provident expects to continue to benefit from increased volumes at the Younger facility as additional gas supply volumes from the developing Montney area are supplied via the recently completed South Peace Pipeline.

Given updated forward pricing assumptions, Provident expects to be at the lower end of its estimated 2010 adjusted EBITDA guidance range of \$200 to \$230 million. Provident's guidance range is subject to certain market and operational assumptions, including normal weather conditions, and excludes the one-time cost of the financial derivative instruments buyout in the second quarter of 2010 and strategic review and restructuring costs. This guidance is based, in part, on the revised 2010 second half average price assumptions of U.S. WTI crude \$78.20 per barrel, AECO gas Cdn\$3.85 per gj, Canadian/U.S. dollar exchange rate of 1.04 and a Mont Belvieu propane price at 58 percent of the WTI crude oil price.

Provident is finalizing its plans for a corporate conversion expected to occur near the end of the fiscal year. Clarity in the conversion legislation from the Government of Canada is expected soon, at which time Provident will update unitholders with more information regarding the corporate conversion approach and dividend policy. Based on available information, management expects Provident will be in a position, subject to the price environment, to utilize existing tax pools to offset corporate income taxes through 2013.

## **Provident Midstream operating results review**

### **The Midstream business**

Provident's Midstream business extracts, processes, stores, transports and markets natural gas liquids (NGL) for Provident and offers these services to third party customers.

Provident Midstream contains three business lines:

**Empress East** - Extracts NGLs from natural gas at the Empress straddle plants and sells finished products into markets in central Canada and the eastern United States.

**Redwater West** - Purchases NGL mix from various natural gas producers and fractionates it into finished products at the Redwater fractionation facility near Edmonton, Alberta. It also includes gas supply volumes from the Younger NGL extraction plant located at Taylor in northeastern British Columbia.

**Commercial Services** - Generates income from fee-for-service contracts to provide fractionation, storage, LPG terminalling, loading and offloading services. It also includes income from pipeline tariffs from Provident's ownership in NGL pipelines.

The Empress East and Redwater West business lines are supported by Provident's integrated marketing arm which has offices in Calgary, Alberta, Sarnia, Ontario, and Houston, Texas and operates under the brand name Kinetic. Rather than selling NGL produced by the Empress East and Redwater West facilities at the plant gate, the marketing and logistics group utilizes Provident's integrated suite of transportation, storage and logistics assets to access markets across North America. By strategically building inventories of specification products during lower priced periods which can then be distributed into premium-priced markets across North America during periods of high seasonal demand, Provident is able to optimize the margins it earns from its extraction and fractionation operations. Provident's marketing group also generates margins by taking advantage of locational price differentials and arbitrage trading opportunities. Margins generated through marketing activities are included within the Empress East and Redwater West business lines.

### **Midstream asset acquisition**

On March 31, 2010, Provident purchased a storage facility in Corunna, Ontario. The facility is located in close proximity to Provident's existing operations in Sarnia, Ontario. The 1,000 acre site has an active cavern storage capacity of 12.1 million barrels, consisting of 5.0 million barrels of hydrocarbon storage and 7.1 million barrels currently used for brine storage. The facility also includes 13 pipeline connections and a small rail offloading facility. This facility is well situated to be a terminalling hub for NGLs from the rapidly growing Marcellus Gas play. The Trust plans to allocate approximately \$17 million of its capital budget towards the expansion and construction of pipeline, rail and truck terminalling infrastructure at the Corunna storage facility. Provident anticipates that these upgrades will enhance operating flexibility and commercial opportunities at Sarnia in the future.

### **Market environment**

Provident's performance is closely tied to market prices for NGL products and natural gas, which can vary significantly from period to period. The key reference prices impacting Midstream operating margins are summarized in the following table:

Midstream business reference prices	Three months ended June 30,			Six month ended June 30,		
	2010	2009	% Change	2010	2009	% Change
WTI (US\$ per barrel)	\$ 78.03	\$ 59.62	31	\$ 78.37	\$ 51.35	53
Exchange rate (from US\$ to Cdn\$)	1.03	1.17	(12)	1.03	1.21	(15)
WTI expressed in Cdn\$ per barrel	\$ 80.19	\$ 69.58	15	\$ 81.06	\$ 61.94	31
AECO monthly index (Cdn\$ per gj)	\$ 3.72	\$ 3.47	7	\$ 4.40	\$ 4.40	-
Frac Spread Ratio <sup>(1)</sup>	21.6	20.1	7	18.4	14.1	30
Mont Belvieu Propane (US\$ per US gallon)	\$ 1.08	\$ 0.73	48	\$ 1.17	\$ 0.71	65
Mont Belvieu Propane expressed as a percentage of WTI	58%	51%	14	63%	57%	11
Market Frac Spread in Cdn\$ per barrel <sup>(2)</sup>	\$ 38.24	\$ 26.29	45	\$ 38.58	\$ 21.80	77

<sup>1)</sup> Frac spread ratio is the ratio of WTI expressed in Canadian dollars per barrel to the AECO monthly index (Cdn\$ per gj).

<sup>2)</sup> Market frac spread is determined using weighted average spot prices at Mont Belvieu for propane, butane, and condensate and the AECO monthly index price for natural gas.

The NGL pricing environment in the second quarter of 2010 was significantly stronger than in the second quarter of 2009. The average second quarter 2010 WTI crude oil price was US\$78.03 per barrel, representing an increase of 31 percent compared to the second quarter of 2009. The impact of higher WTI crude oil prices was partially offset by the strengthening of the Canadian dollar relative to the US dollar in the second quarter of 2010 compared to the second quarter of 2009. Propane prices were also much stronger than in the prior year, tracking the increase in crude oil prices. The Mont Belvieu propane price averaged US\$1.08 per US gallon in the second quarter 2010, compared to US\$0.73 per US gallon in the second quarter 2009. Propane prices as a percentage of WTI averaged 58 percent during the second quarter of 2010, which was stronger than in the comparative quarter in 2009. Due to weakened economic conditions throughout much of 2009, propane prices during the second quarter traded at historic lows averaging only 51% of the WTI crude price. Butane and condensate sales prices were also much improved in the second quarter of 2010, reflective of higher crude oil prices and steady petrochemical and oilsands demand for these products. Second quarter 2010 NGL prices have softened relative to the first quarter of this year reflecting the seasonal transition from the winter season to the summer season, when demand for NGL products is typically much lower.

Second quarter 2010 natural gas prices were slightly higher than in the second quarter of 2009, however, prices were significantly lower than in first quarter 2010. AECO natural gas averaged \$3.72 per gj in the second quarter of 2010 compared to \$3.47 per gj during the second quarter of 2009, an increase of seven percent. While low natural gas prices are generally favorable to NGL extraction and fractionation economics, a sustained period in a low priced gas environment will impact the availability and overall cost of natural gas and NGL mix supply in western Canada, as natural gas producers may elect to shut-in production or reduce drilling activities.

Market frac spreads averaged \$38.24 per barrel during the second quarter of 2010, representing a 45 percent increase from \$26.29 per barrel during the second quarter of 2009. Higher frac spreads were a result of much stronger NGL sales prices offset slightly by a higher AECO gas price. The benefit to Provident of higher market frac spreads in the second quarter of 2010 was offset by increased costs for natural gas supply in western Canada, particularly at Empress. Empress extraction premiums have increased by close to 200 percent in the second quarter 2010 relative to the prior year quarter. Higher premiums are primarily as a result of reduced volumes of natural gas flowing past the Empress straddle plants. In the second quarter of 2010, natural gas throughput at the Empress Eastern border averaged approximately 4.6 bcf per day, a decrease of approximately 13 percent compared to the same period in 2009. While extraction premiums are not included in the calculation of market frac spreads, they are included, along with other costs, when determining actual extraction operating margins. Lower natural gas throughput directly impacts production at the Empress facilities which in turn reduces the propane-plus inventories available for sale in Sarnia and in surrounding eastern markets. Tighter supply at Sarnia may have a positive impact on Eastern sales prices relative to other major propane hubs, including Mont Belvieu and Sarnia, during periods of high demand.

Industry propane inventories in the United States were approximately 50 million barrels as of the end of the second quarter, representing a significant decrease of approximately 16 million barrels compared to the prior year, and approximately 1 million barrels below the five year historical average. Inventory levels are lagging prior year levels primarily due to the continued strong demand from the petrochemical sector and above average exports from the U.S. Gulf Coast to Central and South American markets. Ending second quarter 2010 Canadian industry propane inventories were approximately 6 million barrels which is 0.5 million barrels higher than at the end of second quarter 2009, and in line with the historic five year average. Higher Canadian propane inventories are primarily attributable to reduced demand during the first half of 2010. Above average temperatures across Canada and most of the United States during the early part of 2010 resulted in an early end to the winter season and a corresponding reduction in demand.

## Provident Midstream business performance

Provident Midstream results can be summarized as follows:

(bpd)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Empress East NGL sales volumes	35,545	42,378	(16)	43,387	52,545	(17)
Redwater West NGL sales volumes	58,485	60,421	(3)	60,214	69,581	(13)
Total NGL sales volumes	94,030	102,799	(9)	103,601	122,126	(15)

(\$ 000s)	Three months ended June 30,			Six months ended June 30,		
	2010	2009 <sup>(1)</sup>	% Change	2010	2009 <sup>(1)</sup>	% Change
Empress East margin	\$ 11,523	\$ 17,148	(33)	\$ 39,621	\$ 34,652	14
Redwater West margin	22,635	24,592	(8)	66,548	61,165	9
Commercial Services margin	15,277	14,403	6	31,805	30,427	5
Gross operating margin	49,435	56,143	(12)	137,974	126,244	9
Realized loss on financial derivative instruments	(7,811)	(18,817)	(58)	(29,903)	(8,053)	271
Cash general and administrative expenses	(6,442)	(7,866)	(18)	(20,163)	(24,429)	(17)
Realized foreign exchange and other	(411)	(1,675)	(75)	(1,567)	(608)	158
Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs	34,771	27,785	25	86,341	93,154	(7)
Realized loss on buyout of financial derivative instruments	(199,059)	-		(199,059)	-	
Strategic review and restructuring costs	(11,427)	(7,402)	54	(11,913)	(7,676)	55
Adjusted EBITDA	\$ (175,715)	\$ 20,383	-	\$ (124,631)	\$ 85,478	-

<sup>(1)</sup> Certain transportation expenses and product margins relating to the prior year have been reclassified from Redwater West to Empress East to conform with current year presentation.

## Gross operating margin

Midstream gross operating margin during the second quarter of 2010 totaled \$49.4 million, a decrease of 12 percent compared to the prior year. The decrease in operating margin is primarily a result of a lower contribution from the Empress East and Redwater West business lines, slightly offset by a six percent increase in Commercial Services contribution.

The year-to-date margin was \$138.0 million in 2010 which is nine percent higher than the year-to-date margin of \$126.2 million in 2009. Year-to-date margin reflects increased contributions from all three business lines.

## The Empress East business line

The Empress East business line extracts NGLs from natural gas at the Empress straddle plants and sells finished products into markets in central Canada and the eastern United States. Demand for propane is seasonal and results

in inventory that generally builds over the second and third quarters of the year and is sold in the fourth quarter and the first quarter of the following year. The margin in this business is determined primarily by the “frac spread”, which represents the difference between the selling prices for propane-plus and the input cost of the natural gas required to produce the respective NGL products. The frac spread can change significantly from period to period depending on the relationship between crude oil and natural gas prices (the “frac spread ratio”), absolute commodity prices, and changes in the Canadian to U.S. dollar foreign exchange rate. Traditionally a higher frac spread ratio and higher crude oil prices will result in stronger business line margins. Differentials between propane-plus and crude oil prices, as well as locational price differentials will also impact the frac spread. Natural gas extraction premiums and costs relating to transportation, fractionation, storage and marketing are not included within the frac spread, however these costs are included in the business line operating margin.

On March 31, 2010, Provident completed the acquisition of the Provident Corunna Storage Terminal. The Corunna storage facility significantly enhances the flexibility of Provident’s Empress East business line by allowing Provident to strategically build inventories during lower priced summer months, which will then be sold into premium priced markets during the peak winter season. The Corunna storage facility will also be used to generate revenues from third-party storage of NGLs. Revenues and operating costs associated with the Corunna facility are included within the Empress East business line.

Empress East gross operating margin was \$11.5 million in the second quarter of 2010 compared to \$17.1 million in the same quarter of 2009. This 33 percent decrease was due to reduced NGL sales volumes relative to the prior year, as well as lower realized propane-plus unit margins. Second quarter 2010 sales volumes averaged 35,545 bpd, a 16 percent decrease compared to the same quarter of 2009. Lower sales volumes resulted from lower demand in the Eastern marketplace and lower production at Provident’s Empress facilities. NGL prices have softened in recent months reflecting above average temperatures during the first quarter of 2010 as well as a reduction in year-over-year NGL product demand. Provident will utilize its incremental capacity at Sarnia and Corunna, Ontario to store additional propane-plus inventory, which can then be sold with the expected increase in winter seasonal demand. Second quarter 2010 production at the Empress facilities has decreased by approximately 15 percent compared to the prior year, primarily due to lower eastern gate natural gas flows. Provident has partially mitigated the impact of lower natural gas based NGL supply at Empress through the purchase of NGL mix supply in Western Canada. In the first quarter of 2010, Provident completed the construction of a truck rack at its Provident Empress facility and began trucking in NGL mix supply starting April 1. The mix is then transported to the premium-priced Sarnia market for fractionation and sale. Provident is also purchasing NGL mix supply from other Empress plant owners and in the Edmonton market.

Gross operating margin in the second quarter of 2010 was also impacted by lower propane-plus per unit margins. Stronger market frac spreads were more than offset by the significant year-over-year increase in extraction premiums paid to purchase natural gas and higher power costs. Unit margins were also impacted by the addition of NGL mix supply, as margins earned on gas extraction are typically higher than margins earned on NGLs purchased on a mix basis.

The year-to-date margin was \$39.6 million in 2010 which represents a 14 percent increase compared to year-to-date margin of \$34.6 million in 2009. The increase in year-to-date margin was primarily attributable to higher unit margins on propane-plus sales partially offset by a 17 percent reduction in sales volumes. Higher unit margins were driven much higher market frac spreads in 2010 relative to 2009, particularly during the first quarter. Sales volumes are lower than in the prior year as a result of lower production and demand.

#### **The Redwater West business line:**

The Redwater West business line purchases NGL mix from various natural gas producers and fractionates it into finished products at the Redwater fractionation facility near Edmonton, Alberta. The Redwater West business line also includes natural gas supply volumes from the Younger NGL extraction plant located at Taylor in northeastern British Columbia. The Younger plant supplies specification NGLs to local markets as well as NGL mix supply to the Redwater fractionation facility. The feedstock for the Redwater West business line is primarily NGL mix rather than natural gas, therefore frac spreads have a smaller impact on operating margin than in the Empress East business line.

Also located at the Redwater facility is Provident's industry leading rail-based condensate terminal, which serves the heavy oil industry and its need for diluent. Provident's condensate terminal is the largest of its size in western Canada and over the past several years Provident has continuously increased its condensate market presence at Redwater through marketing, third-party terminalling and, more recently, condensate storage. In the latter half of 2009, Provident placed two 500,000 barrel storage caverns into condensate service at Redwater, and is currently developing a third cavern which will be commissioned in 2011. Income generated from the condensate terminal and caverns which relates to third-party terminalling and storage is included within the Commercial Services business line, while income relating to proprietary condensate marketing activities remains within the Redwater West business line.

In the second quarter of 2010, the operating margin for Redwater West was \$22.6 million, a decrease of eight percent compared to \$24.6 million in the second quarter of 2009. The decrease in margin was due to significantly lower propane-plus sales volumes and lower condensate per unit margins partially offset by higher per unit margins on propane and butane, and a higher contribution from ethane sales. Lower propane-plus sales volumes are a result of lower demand for propane in the US Midwest, lower butane in Western Canada, as well as lower condensate imports.

Condensate per unit margins were lower in the second quarter of 2010 compared to the prior year primarily due to lower margins on condensate railed into Redwater from the US Gulf Coast. Condensate railed to Redwater is generally purchased based on a Mt. Belvieu natural gasoline price and is sold in Edmonton using a price that is based on WTI crude. During the second quarter of 2010, Mt. Belvieu natural gasoline prices as a percentage of WTI averaged 97 percent, which is significantly higher than in the prior year where Mt Belvieu natural gasoline prices averaged 84 percent of WTI. Propane and butane unit margins in the second quarter of 2010 are 41 percent and 37 percent higher than in the second quarter of 2009, respectively. Higher per unit margins are attributable to stronger NGL pricing, as well as higher frac spreads on Younger gas supply volumes.

Ethane contribution is also higher in the second quarter of 2010 compared to the prior year. The increased ethane contribution is due to higher ethane sales volumes as well as more favourable ethane pricing.

On a combined basis, Redwater West propane-plus selling prices in the second quarter of 2010 increased by 29 percent relative to the prior year quarter reflecting higher market prices for NGL. Cost of goods sold, on a per unit basis, was 33 percent higher than the second quarter of 2009 reflecting market based pricing for NGLs and natural gas.

Redwater West NGL sales volumes averaged 58,485 bpd in the second quarter of 2010, a decrease of three percent compared to the prior year quarter. Lower demand for propane, butane and condensate was offset by increased ethane sales volumes, which resulted from increased NGL mix supply and production at Redwater. Supply at Redwater is expected to increase in 2010 compared to 2009. During the contracting season for the April 2010/2011 NGL year, Provident was able to replace prior year production declines and gain new sources of NGL mix supply. Provident has also started to benefit from additional gas supply volumes at the Younger extraction plant as a result of the recently completed South Peace Pipeline. The South Peace Pipeline brings natural gas from the rapidly developing Montney area in northeast British Columbia to Younger for processing.

Year-to-date margin increased to \$66.5 million in 2010 from \$61.2 million in 2009, an increase of nine percent. The year-to-date increase is due to stronger unit margins on propane-plus sales which were a result of a stronger NGL pricing environment, including higher market frac spreads. Higher unit volumes were offset partially by a 13 percent reduction in Redwater West sales volumes which were lower than in the prior year due to weaker demand for NGL products.

#### **The Commercial Services business line:**

The Commercial Services business line generates income from fee-for-service contracts to provide fractionation, storage, NGL terminalling, loading and offloading services. Income from pipeline tariffs from Provident's ownership in NGL pipelines is also included in this business line. Operating margin in the second quarter of 2010 was \$15.3 million, representing an increase of six percent compared to the same period in 2009. The increase in

margin was mostly due to incremental storage revenues from Provident's condensate storage caverns, which were completed in the third quarter of 2009.

Year-to-date 2010, the commercial services margin was \$31.8 million, an increase of five percent compared to \$30.4 million in 2009. The increased commercial services margin is largely attributable to incremental condensate storage revenues.

### **Earnings before interest, taxes, depletion, depreciation, accretion, and other non-cash items (“adjusted EBITDA”)**

Adjusted EBITDA includes the impact of the Midstream financial derivative contract buyout, as well as strategic review and restructuring costs associated with the separation of the business units. Management has presented a metric excluding these items as an additional measure to evaluate Provident's performance in the period and to assess future earnings generating capability. Second quarter 2010 adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs increased to \$34.8 million from \$27.8 million in the second quarter 2009 reflecting lower realized loss on financial derivative instruments as a result of the Midstream derivative contract buyout program and lower general and administrative expenses, partially offset by lower operating margins. The \$7.8 million realized loss on financial derivative instruments in the second quarter of 2010 largely relates to the period prior to the buyout of derivative contracts. Since the buyout, Provident has realized a \$0.4 million gain on financial derivative instruments to June 30, 2010. For more information on the derivative contract buyout see “Commodity price risk management program”. The decrease in cash general and administrative expenses reflects staff reductions and cost cutting measures implemented within the organization.

Year-to-date adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs decreased to \$86.3 million from \$93.2 million in 2009. In the first six months of 2010, realized losses on financial derivative instruments were \$21.9 million higher than the comparable period in 2009. The realized losses in 2010 relates to the period prior to the buyout of the derivative contracts. Since the buyout, Provident has realized a \$0.4 million gain on financial derivative instruments to June 30, 2010.

The impact of the realized losses on financial derivative instruments on year-to-date adjusted funds flow from continuing operations was largely offset by a nine per cent increase in gross operating margin in the first six months of 2010, as well as lower general and administrative expenses.

### **Capital expenditures**

Midstream capital expenditures for the second quarter of 2010 totaled \$3.4 million, and \$10.4 million year-to-date. During 2010, \$8.2 million was spent on growth projects including the construction of a truck rack at the Provident Empress plant, continued development of cavern storage at Redwater, and development activities relating to the recently acquired Corunna storage facility. In addition, \$2.1 million was spent on sustaining capital requirements and \$0.1 million was spent on office related capital.

### **Net loss**

Consolidated (\$ 000s, except per unit data)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Net income (loss) from continuing operations	\$ 10,702	\$ (55,147)	-	\$ 34,556	\$ (60,708)	-
Net loss from discontinued operations	(355,577)	(24,914)	1,327	(439,890)	(59,637)	638
Net loss	\$ (344,875)	\$ (80,061)	331	\$ (405,334)	\$ (120,345)	237
Per weighted average unit						
– basic <sup>(1)</sup> and diluted <sup>(2)</sup>	\$ (1.30)	\$ (0.31)	319	\$ (1.53)	\$ (0.46)	233

<sup>(1)</sup> Based on weighted average number of trust units outstanding.

<sup>(2)</sup> Based on weighted average number of trust units outstanding including the dilutive impact of convertible debentures.

In the second quarter of 2010, Provident recorded a net loss of \$344.9 million, which was primarily attributable to the \$355.6 million net loss from discontinued operations. The net loss from discontinued operations includes a \$319.0 million loss, net of taxes, on the sale of the Upstream business.

Net income from continuing operations for the second quarter of 2010 was \$10.7 million, compared to a net loss of \$55.2 million in the second quarter of 2009. The net loss in 2009 was impacted by realized and unrealized losses from financial derivative instruments of \$97.7 million. Total realized and unrealized losses on financial derivative instruments in the second quarter of 2010 were \$11.1 million, \$86.6 million lower than the same period in 2009. Partially mitigating this difference is lower income tax recoveries in the second quarter of 2010, which were driven by the lower losses on financial derivative instruments.

## Taxes

Continuing operations (\$ 000s)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Current tax (recovery) expense	\$ (10,186)	\$ 854	-	\$ (10,079)	\$ 3,048	-
Future income tax expense (recovery)	3,704	(24,587)	-	(13,634)	(46,964)	(71)
	\$ (6,482)	\$ (23,733)	(73)	\$ (23,713)	\$ (43,916)	(46)

The current tax recovery for the three and six months ended June 30, 2010 of \$10.2 million (2009 – \$0.9 million expense) and \$10.1 million (2009 - \$3.0 million expense), respectively, are attributed to lower earnings subject to tax in the U.S. Midstream operations allowing the recovery of taxes paid in prior periods. The lower earnings were generated primarily by the realized loss on buyout of financial derivative instruments incurred in the second quarter of 2010.

The 2010 second quarter future income tax expense of \$3.7 million compares to a recovery of \$24.6 million in the second quarter of 2009. The future income tax expense in the second quarter of 2010 was driven by the unrealized gain on financial derivative instruments. Conversely, the future income tax recovery in the second quarter of 2009 resulted primarily from the unrealized loss on financial derivative instruments.

Subsequent to the sale of the Upstream business, Provident's outstanding tax pools exceed the corresponding carrying value resulting in a future tax asset balance as at June 30, 2010.

## Interest expense

Continuing operations (\$ 000s, except as noted)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Interest on bank debt	\$ 3,043	\$ 2,212	38	\$ 4,024	\$ 6,034	(33)
Interest on convertible debentures	4,043	4,548	(11)	8,090	9,096	(11)
Discontinued operations portion	(1,969)	(1,687)	17	(2,501)	(4,505)	(44)
Total cash interest	\$ 5,117	\$ 5,073	1	\$ 9,613	\$ 10,625	(10)
Weighted average interest rate on all long-term debt	4.4%	3.4%	29	4.3%	3.8%	13
Debt accretion and other non-cash interest expense	1,146	1,287	(11)	2,290	2,621	(13)
Discontinued operations portion	-	(67)	(100)	-	(168)	(100)
Total interest expense	\$ 6,263	\$ 6,293	-	\$ 11,903	\$ 13,078	(9)

Interest expense increased in the second quarter as compared to the same quarter in 2009. Although, the Trust maintained lower debt levels as a result of the strategic asset dispositions that closed in the third and fourth quarters of 2009 and in the first and second quarters of 2010, market interest rates in the second quarter have risen resulting in higher interest expense. Year-to-date interest expense decreased \$1.2 million from 2009 due to the Trust maintaining lower debt levels in 2010 compared to 2009 as a result of the strategic asset dispositions over the past twelve months.

## **Commodity price risk management program**

Provident's commodity price risk management program utilizes derivative instruments to provide protection against commodity price fluctuations and decreased margins. The program reduces exposure to commodity price volatility and provides support for cash distributions, bank lending capacity, capital programs and acquisition and project economics. For the Midstream business, the program provides price stabilization and protection of a percentage of inventory values and fractionation spread margin. The Program also reduces foreign exchange risk due to the exposure arising from the conversion of U.S. dollars into Canadian dollars, interest rate risk and fixes a portion of Provident's input costs.

The commodity price derivative instruments the Trust uses include put and call options, costless collars, participating swaps, and fixed price products that settle against indexed referenced pricing.

Provident's credit policy governs the activities undertaken to mitigate non-performance risk by counterparties to financial derivative instruments. Activities undertaken include regular monitoring of counterparty exposure to approved credit limits, financial reviews of all active counterparties, utilizing International Swap Dealers Association (ISDA) agreements and obtaining financial assurances where warranted. In addition, Provident has a diversified base of available counterparties.

In the Midstream business, production margins are affected by the spread between the purchase cost of natural gas and sales price of propane, butane and condensate. In previous periods, Provident has entered into natural gas, crude oil and foreign exchange financial derivative contracts through March 2013 designed to protect operating margins in the Midstream business. Short term financial derivative instruments directly fixing propane, butane, natural gasoline and electricity prices have also been executed.

In April, 2010, Provident completed the buyout of all fixed price crude oil and natural gas swaps associated with the Midstream business unit for a total cost of \$199.1 million. The buyout of Provident's forward mark to market positions allows the Trust to refocus its Commodity Price Risk Management Program on forward selling a portion of actual produced NGL products and inventory to lock-in margins for terms of up to two years. Provident has retained certain participating crude oil and natural gas swaps and the NGL throughput and inventory contracts that utilize financial derivative instruments based directly on underlying NGL products. Based on the forward price strip at the time the buyout was executed, management would expect that cash flow would increase by an amount approximating the cost of the buyout for the latter half of 2010 through 2013, as a result of increased participation in extraction margins.

Management continues to actively monitor commodity price risk and intends to continue to mitigate its impact through financial risk management activities. Provident will utilize financial derivative instruments to protect NGL product prices, inventories and extraction margins for up to two years forward in order to protect the economics of the Midstream business. A summary of Provident's current commodity derivative positions is available on Provident's website at [www.providentenergy.com/bus/riskmanagement/commodity.cfm](http://www.providentenergy.com/bus/riskmanagement/commodity.cfm).

A summary of Provident's risk management contracts executed during the second quarter of 2010 is contained in the following tables.

## Activity in the Second Quarter:

### Midstream<sup>(1)(2)</sup>

Year	Product	Volume (Buy)/Sell	Terms	Effective Period
2010	Crude Oil	(630) Bpd	US \$82.35 per bbl <sup>(9)</sup>	July 1 - September 30
		250 Bpd	US \$87.50 per bbl <sup>(5)(10)</sup>	July 1 - December 31
		523 Bpd	US \$80.94 per bbl <sup>(5)(11)</sup>	August 1 - December 31
	Natural Gas	(20,871) Gjpd	Calls Cdn \$3.67 per gj <sup>(3)(4)</sup>	July 1 - December 31
	Propane	864 Bpd	US \$1.115 per gallon <sup>(6)(9)</sup>	July 1 - September 30
		1,141 Bpd	US \$1.118 per gallon <sup>(6)(11)</sup>	October 1 - December 31
	Normal Butane	310 Bpd	US \$1.39 per gallon <sup>(7)(9)</sup>	July 1 - September 30
		815 Bpd	US \$1.42 per gallon <sup>(7)(11)</sup>	October 1 - December 31
	Natural Gasoline	(250) Bpd	US \$1.90 per gallon <sup>(8)(10)</sup>	July 1 - December 31
	2011	Crude Oil	250 Bpd	US \$87.50 per bbl <sup>(5)(10)</sup>
444 Bpd			US \$81.18 per bbl <sup>(5)(11)</sup>	January 1 - March 31
Natural Gas		(5,000) Gjpd	Cdn \$4.65 per gj <sup>(3)</sup>	January 1 - June 30
Normal Butane		833 Bpd	US \$1.42 per gallon <sup>(7)(11)</sup>	January 1 - March 31
Natural Gasoline		(250) Bpd	US \$1.90 per gallon <sup>(8)(10)</sup>	January 1 - March 31

<sup>(1)</sup> The above table represents a number of transactions entered into over the second quarter 2010.

<sup>(2)</sup> The above table excludes transactions noted in the April 19, 2010 press release that were executed to buyout fixed price crude oil & natural gas swaps.

<sup>(3)</sup> Natural gas contracts are settled against AECO monthly index.

<sup>(4)</sup> Natural gas call options provide a "ceiling" price for the gas quantities contracted. Ceiling price is strike plus premium. Provident pays market price below the "strike".

<sup>(5)</sup> Crude Oil contracts are settled against NYMEX WTI calendar average.

<sup>(6)</sup> Propane contracts are settled against Belvieu C3 TET.

<sup>(7)</sup> Normal Butane contracts are settled against Belvieu NC4 NON TET.

<sup>(8)</sup> Natural Gasoline Contracts are settled against Belvieu NON TET Natural Gasoline.

<sup>(9)</sup> Conversion of Crude Oil BTU contracts to liquids.

<sup>(10)</sup> Midstream margin contracts.

<sup>(11)</sup> Midstream inventory price stabilization contracts.

## Settlement of commodity contracts

The following table summarizes the impact of financial derivative contracts settled during the first quarter and six months ended June 30, 2010 and 2009 that were included in realized loss on financial derivative instruments. The table excludes the impact of the Midstream derivative contract buyout, presented separately on the consolidated statement of operations.

Realized loss on financial derivative instruments (\$ 000s except volumes)	Three months ended June 30,				Six months ended June 30,			
	2010		2009		2010		2009	
	Volume <sup>(1)</sup>		Volume <sup>(1)</sup>		Volume <sup>(1)</sup>		Volume <sup>(1)</sup>	
Crude oil	\$ (3,938)	0.5	\$ 10,014	1.0	\$ (11,151)	1.2	\$ 35,436	2.2
Natural gas	(5,900)	2.0	(26,675)	5.7	(21,979)	7.2	(43,940)	11.4
NGL's (includes propane, butane)	619	0.1	(317)	0.1	1,154	0.4	5,479	0.2
Foreign exchange	1,037		(1,254)		2,172		(4,257)	
Electricity	700		(474)		600		(660)	
Interest rate	(329)		(111)		(699)		(111)	
<b>Realized loss on financial derivative instruments</b>	<b>\$ (7,811)</b>		<b>\$ (18,817)</b>		<b>\$ (29,903)</b>		<b>\$ (8,053)</b>	

<sup>(1)</sup> The above table represents aggregate net volumes that were bought/sold over the periods. Crude oil and NGL volumes are listed in millions of barrels and natural gas is listed in millions of gigajoules.

The realized loss in the second quarter of 2010 was driven by natural gas purchase derivative contracts in the Midstream business settling at a contracted price higher than the current market natural gas prices as well as crude oil derivative sales contracts in the Midstream business settling at contracted crude oil prices lower than the crude oil market prices during the settlement period. The second quarter 2009 realized loss was driven mostly by natural gas purchase derivative contracts in the Midstream business settling at a contracted price higher than the market natural gas prices during the settlement period, partially offset by crude oil derivative sales contracts settling at contracted crude oil prices higher than the crude oil market prices during the settlement period.

## Liquidity and capital resources

Consolidated			
(\$ 000s)	June 30, 2010	December 31, 2009	% Change
Long-term debt - revolving term credit facility	\$ 243,267	\$ 264,776	(8)
Long-term debt - convertible debentures (including current portion)	242,776	240,486	1
Working capital surplus (excluding financial derivative instruments)	(70,682)	(31,152)	127
Net debt	\$ 415,361	\$ 474,110	(12)
Unitholders' equity (at book value)	585,559	1,381,399	(58)
Total capitalization at book value	\$ 1,000,920	\$ 1,855,509	(46)
Total net debt as a percentage of total book value capitalization	41%	26%	58

Midstream revenues are received at various times throughout the month. Provident's working capital position is affected by seasonal fluctuations that reflect commodity price changes, and inventory balances in its Midstream business unit. Provident relies on funds flow from operations, external lines of credit and access to equity markets to fund capital programs and acquisitions.

Substantially all of Provident's accounts receivable are due from customers and joint venture partners in the oil and gas and midstream services and marketing industries and are subject to credit risk. Provident partially mitigates associated credit risk by limiting transactions with certain counterparties to limits imposed by Provident based on management's assessment of the creditworthiness of such counterparties. In certain circumstances, Provident will require the counterparties to provide payment prior to delivery, letters of credit and/or parental guarantees. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

### Long-term debt and working capital

The Trust has entered into a new credit agreement (the "Credit Facility") as of June 29, 2010, among the Trust, National Bank of Canada and TD Securities as co-leads and arrangers and a syndicate of Canadian chartered banks and other Canadian and foreign financial institutions (the "Lenders"). Pursuant to the Credit Facility, the Lenders have agreed to provide Provident's pure-play infrastructure Midstream business with a credit facility of \$500 million under an accordion feature which can be increased to \$750 million at the option of the Trust. The Credit Facility also provides for a separate \$60 million Letter of Credit facility.

The terms of the credit facility have a revolving three year period expiring on June 28, 2013. The Trust may draw on the facility by way of Canadian prime rate loans, U.S. base rate loans, banker's acceptances or LIBOR loans. As at June 30, 2010, Provident had drawn \$247.5 million or 50 percent of its term credit facility as compared to \$265.0 million or 26 percent drawn as at December 31, 2009. At June 30, 2010 the effective interest rate of the outstanding credit facility was 3.4 percent (December 31, 2009 – 1.4 percent).

At June 30, 2010 Provident had \$33.5 million in letters of credit outstanding (December 31, 2009 - \$27.2 million) that guarantee Provident's performance under certain commercial and other contracts.

The following table shows the change in Provident's working capital position. Note that the balances at December 31, 2009 include the Upstream business which was sold on June 29, 2010.

(\$ 000s)	As at June 30, 2010		As at December 31, 2009		Change
<b>Current Assets</b>					
Cash and cash equivalents	\$	-	\$	7,187	\$ (7,187)
Accounts receivable		<b>181,102</b>		216,786	(35,684)
Petroleum product inventory		<b>87,533</b>		37,261	50,272
Prepaid expenses and other current assets		<b>5,876</b>		4,803	1,073
Financial derivative instruments		<b>2,353</b>		5,314	(2,961)
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities		<b>190,375</b>		221,417	31,042
Cash distribution payable		<b>13,454</b>		13,468	14
Current portion of convertible debentures		<b>147,505</b>		-	(147,505)
Financial derivative instruments		<b>8,253</b>		86,441	78,188
<b>Working capital deficit</b>	<b>\$</b>	<b>(82,723)</b>	<b>\$</b>	<b>(49,975)</b>	<b>\$ (32,748)</b>

The ratio of net debt (as calculated under "Liquidity and capital resources") to adjusted funds flow from continuing operations for the twelve months ended June 30, 2010 was a 2.5 to one.

### Trust units

Under Provident's Premium Distribution, Distribution Reinvestment (DRIP) and Optional Unit Purchase Plan program, 0.9 million units were elected in the second quarter of 2010 and were issued or are to be issued, representing proceeds of \$6.7 million (2009 – 1.2 million units for proceeds of \$6.4 million).

At June 30, 2010 management and directors held less than one percent of the outstanding trust units.

### Capital related expenditures and funding

The following table presents expenditures and funding for both the continuing operations Midstream business and the discontinued operations Upstream business.

(\$ 000s)	Three months ended June 30,			Six months ended June 30,		
	2010	2009	% Change	2010	2009	% Change
<b>Capital related expenditures</b>						
Capital expenditures	\$ (11,252)	\$ (26,548)	(58)	\$ (40,610)	\$ (83,054)	(51)
Site restoration expenditures - discontinued operations	(1,002)	(1,210)	(17)	(2,041)	(4,184)	(51)
Buyout of financial derivative instruments	(199,059)	-		(199,059)	-	
Acquisitions	(860)	(119)		(27,564)	(493)	
<b>Net capital related expenditures</b>	<b>\$ (212,173)</b>	<b>\$ (27,877)</b>	<b>661</b>	<b>\$ (269,274)</b>	<b>\$ (87,731)</b>	<b>207</b>
<b>Funded by</b>						
Funds flow from operations net of declared distributions to unitholders	\$ (34,495)	\$ 1,504	-	\$ (22,970)	\$ 31,274	(173)
Cash proceeds on sale of assets	114,199	-		320,610	-	
Increase (decrease) in long-term debt	143,081	15,194	842	(21,509)	6,333	(440)
DRIP proceeds	6,689	6,394	5	13,612	14,034	(3)
Change in working capital, including cash	(17,301)	4,785	(462)	(20,469)	36,090	(157)
<b>Net capital related expenditure funding</b>	<b>\$ 212,173</b>	<b>\$ 27,877</b>	<b>661</b>	<b>\$ 269,274</b>	<b>\$ 87,731</b>	<b>207</b>

Provident has funded its net capital expenditures with cash flow from operations and long-term debt. Proceeds on sale of assets, which includes the first quarter sales of oil and natural gas assets in West Central Alberta and the investment in Emerge Oil and Gas Inc. as well as the second quarter sale of the remaining Upstream business, were applied to Provident's revolving term credit facility.

## **Strategic review and restructuring expenses**

In continuation with the previously announced strategic review process, on April 19, 2010, Provident announced a strategic transaction to separate its Upstream and Midstream businesses. An agreement was reached with Midnight Oil Exploration Ltd. to combine the remaining Provident Upstream business with Midnight in a \$429 million transaction, as valued at closing. The arrangement received the approval of Provident unitholders and Midnight shareholders, as well as court and regulatory approvals that are typical for transactions of this nature. Closing of this arrangement occurred on June 29, 2010. In conjunction with this transaction and other initiatives, Provident completed an internal reorganization which resulted in staff reductions at all levels of the organization, including senior management. Tom Buchanan stepped down from his position as President and Chief Executive Officer and Director, effective April 28, 2010. As well, during the quarter the departure of three of Provident's officers was also announced; Dan O'Byrne – Executive Vice President and Chief Operating Officer, Cameron Vouri – President, Provident Upstream and Mark Walker – Senior Vice President, Finance and Chief Financial Officer.

Provident will continue as a pure play, cash distributing natural gas liquids (NGL) infrastructure and services business led by Douglas Haughey, who was appointed to the position of President and Chief Executive Officer and Director effective April 30, 2010. Doug's team encompasses the senior individuals that operate Provident's extraction and fractionation facilities, the senior commercial team that contracts for supply and sale for our facilities, a senior financial team and "Co-presidents" of Midstream and Officers of Provident, Murray Buchanan and Andy Gruszecki.

For the second quarter of 2010, strategic review and restructuring costs were \$28.7 million, of which \$11.4 million were attributable to continuing operations (2009 - \$9.5 million and \$7.4 million, respectively). For the six months ended June 30, 2010, strategic review and restructuring costs were \$29.8 million, of which \$11.9 million were attributable to continuing operations (2009 - \$9.7 million and \$7.7 million, respectively). The costs are comprised primarily of severance, consulting and legal costs.

## **Unit based compensation**

Unit based compensation includes expenses or recoveries associated with Provident's restricted and performance unit plan. Unit based compensation is recorded at the estimated fair value of the notional units granted. Compensation expense associated with the plans is recognized in earnings over the vesting period of each plan. The expense or recovery associated with each period is recorded as non-cash unit based compensation (a component of general and administrative expense). A portion relating to operational employees at field and plant locations is also allocated to operating expense. For the six months ended June 30, 2010, Provident recorded unit based compensation expense from continuing operations of \$2.5 million (2009 - \$3.2 million) and related cash payments of \$6.9 million (2009 - \$5.1 million). The expense was lower in 2010 due to recoveries from staff reductions in the second quarter resulting in cancelled and exercised units. The cash cost is included as part of severance in strategic review and restructuring expenses. At June 30, 2010, the current portion of the liability totaled \$2.5 million (December 31, 2009 - \$12.2 million) and the long-term portion totaled \$9.1 million (December 31, 2009 - \$12.5 million).

## **Discontinued operations (Provident Upstream)**

On June 29, 2010, Provident completed a strategic transaction in which Provident combined the remaining Provident Upstream business with Midnight Oil Exploration Ltd. to form Pace Oil & Gas Ltd. pursuant to a plan of arrangement under the Business Corporations Act (Alberta). Under the Arrangement, Midnight acquired all outstanding shares of Provident Energy Resources Inc., a wholly-owned subsidiary of Provident Energy Trust which holds all of the oil and gas properties and reserves associated with Provident's Upstream business. Effective in the second quarter of 2010, Provident's Upstream business is accounted for as discontinued operations and comparative figures have been reclassified to conform with this presentation. Total consideration from the transaction was \$428.7 million, consisting of \$120 million in cash, offset by a potential minor post-closing adjustment, and approximately 32.5 million shares of Pace valued at \$308.7 million as at the time of the closing of the transaction. Associated transaction costs were \$8.1 million. Under the terms of the Arrangement, Provident unitholders divested a portion of each of their Provident units to receive 0.12225 shares of Pace, which was recorded as a non-cash distribution by the Trust, valued at \$308.7 million. Provident recorded a loss on sale of the Upstream business, amounting to \$319.0 million, net of tax, as part of net loss from discontinued operations. This transaction completed the full sale of the Provident Upstream business in a series of transactions between September 2009 to June 2010.

Due to prior years' upstream asset impairment charges reflected in Provident's reconciliation to United States generally accepted accounting principles (U.S. GAAP), the impact of the sale of the Upstream business is different under U.S. GAAP than under Canadian GAAP. Rather than the loss on sale described above, the transaction will result in a gain in excess of \$200 million, under U.S. GAAP.

## **Tax implications to unitholders of sale of Upstream business**

### **Canadian residents**

Subject to the limitations outlined in the May 10, 2010 Information Circular, as specified in the section entitled "Canadian Federal Income Tax Considerations," the following consequences should result to Canadian Unitholders:

Canadian residents receive proceeds of disposition for a portion of their Provident units equal to the number of Pace shares they received, multiplied by their value. Pursuant to the terms of the Plan of Arrangement, the "Share Consideration Percentage" was 15.96%, which represents the portion of Provident units disposed of by each unitholder.

### **U.S. residents**

Subject to the limitations outlined in the May 10, 2010 Information Circular, as specified in the section entitled "Certain US Federal Income Tax Considerations for Provident Unitholders," the following consequences should result to U.S. Unitholders:

The exchange of the share consideration percentage of each Provident unit for Pace shares will more likely than not qualify as a tax deferred transaction under the Internal Revenue Code which should result in the following:

- No gain or loss will be recognized by the U.S. Holder on the exchange of Provident units for Pace shares pursuant to the Arrangement;
- The aggregate tax basis in the Pace shares acquired in exchange for Provident units pursuant to the Arrangement will be equal to the U.S. Holder's aggregate tax basis in its Provident units multiplied by the Share Consideration Percentage (15.96%);
- The U.S. Holder's holding period in the Pace shares acquired in exchange for Provident units pursuant to the Arrangement will include the U.S. Holder's holding period for the Provident units exchanged; and
- U.S. Holders that exchange Provident units for Pace shares pursuant to the Arrangement generally will be required to report certain information to the IRS on their U.S. federal income tax returns for the taxable year in which the Arrangement occurs, and to retain certain records related to the Arrangement.

If the exchange of Provident units for Pace shares pursuant to the Arrangement does not qualify as a tax deferred transaction for U.S. federal income tax purposes, U.S. Holders would be required to recognize dividend income and/or taxable gain or loss.

## Cash distributions and capital distribution

The following table summarizes cash distributions paid as declared by the Trust since inception:

	<b>Distribution Amount</b>	
	<b>(Cdn\$)</b>	<b>(US\$)*</b>
2001 Cash Distributions paid as declared – March 2001 – December 2001	\$ 2.54	\$ 1.64
2002 Cash Distributions paid as declared	2.03	1.29
2003 Cash Distributions paid as declared	2.06	1.47
2004 Cash Distributions paid as declared	1.44	1.10
2005 Cash Distributions paid as declared	1.44	1.20
2006 Cash Distributions paid as declared	1.44	1.26
2007 Cash Distributions paid as declared	1.44	1.35
2008 Cash Distributions paid as declared	1.38	1.29
2009 Cash Distributions paid as declared	0.75	0.67
2010		
<b>Record Date</b>	<b>Payment Date</b>	
January 22, 2010	February 12, 2010	0.06
February 22, 2010	March 15, 2010	0.06
March 22, 2010	April 15, 2010	0.06
April 22, 2010	May 14, 2010	0.06
May 27, 2010	June 15, 2010	0.06
June 22, 2010	July 15, 2010	0.06
<b>Inception to June 30, 2010 – Cash Distributions paid as declared</b>	<b>\$ 14.88</b>	<b>\$ 11.63</b>
<b>Capital Distribution - June 29, 2010</b>	<b>1.16</b>	<b>1.10</b>
<b>Total inception to June 30, 2010 Cash Distributions and Capital Distribution</b>	<b>\$ 16.04</b>	<b>\$ 12.73</b>

\* Exchange rate based on the Bank of Canada noon rate on the payment date.

In addition to cash distributions, Provident also made a non-cash distribution to unitholders in the second quarter of 2010 relating to the disposition of Provident's Upstream business. This distribution was valued at \$308.7 million, or \$1.16 per unit.

## Foreign ownership

Based on information received from our transfer agent and financial intermediaries in July 2010, an estimated 85 percent of our outstanding trust units are held by non-residents. However, this estimate may not be accurate as it is based on certain assumptions and data from the securities industry that does not have a well-defined methodology to determine the residency of beneficial holders of securities.

The Trust qualifies as a Mutual Fund Trust under the Canadian Income Tax Act because substantially all the value of its asset portfolio is derived from non-taxable Canadian properties, comprised principally of royalties and interest on inter-company debt. Provident monitors on an ongoing basis the value of its asset portfolio to confirm that substantially all of the value of its asset portfolio is derived from non-taxable Canadian properties.

On September 17, 2003, Canadian unitholders approved an amendment to the Trust's Trust Indenture providing that residency restriction provisions need not be enforced while the Trust continues to qualify as a Mutual Fund Trust under Canadian tax legislation. To allow Provident to remain a Mutual Fund Trust and to execute a business plan that maximizes unitholder returns without regard to the types of assets the Trust may hold, the approved amendment

provides for Provident's Board of Directors to have sole discretion to determine whether and when it is appropriate to reduce or limit the number of trust units held by non-residents of Canada.

## **Change in accounting policies**

### **International Financial Reporting Standards (IFRS)**

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

In 2008, Provident commenced the process to transition from current Canadian GAAP to IFRS. A project plan and a project team were established. The project team is led by finance management and includes representatives from various areas of the organization as necessary to plan for a smooth transition to IFRS.

The project plan consists of three phases: initiation, detailed assessment and design and implementation. Provident has completed the first phase, which involved the development of a detailed timeline for assessing resources and training and the completion of a high level review of the major differences between current Canadian GAAP and IFRS. Education and training sessions for employees throughout the organization and discussions with Provident's external auditors have been held and will continue throughout the subsequent phases. Regular reporting on the project plan is provided to Provident's senior management and to the Audit Committee of the Board of Directors.

During 2009, Provident was engaged in the detailed assessment and design phase of the project. The detailed assessment and design phase involves a comprehensive analysis of the impact of the IFRS differences identified in the initial scoping assessment. In addition, an initial evaluation of IFRS 1 transition exemptions, as further described below, and an analysis of financial systems has been performed.

During the implementation phase which began in the first quarter of 2010, Provident will execute the required changes to business processes, financial systems, accounting policies, IT systems, disclosure controls and internal controls over financial reporting as discussed below. Management has not yet finalized its accounting policies and as such is unable to quantify the impact of adopting IFRS on the financial statements. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to Provident's adoption of IFRS, management's plan is subject to change based on new facts and circumstances that arise after the date of this MD&A.

#### **First-Time Adoption of IFRS:**

IFRS 1, "First-Time Adoption of International Financial reporting Standards" ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for Provident, which at this time include the following:

- **Business Combinations** – IFRS 1 would allow Provident to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations that occurred prior to transition to IFRS. The IFRS business combination rules converge with the new CICA Handbook section 1582 that is also effective for Provident on January 1, 2011, however, early adoption is permitted.
- **Property, Plant and Equipment ("PP&E")** – IFRS 1 provides the option to value the Upstream PP&E assets at their deemed cost being the Canadian GAAP net book value assigned to these assets as at the date of transition, January 1, 2010. This amendment is permissible for entities, such as Provident, who currently follow the full cost accounting guideline under Canadian GAAP that accumulates all oil and gas assets into one cost centre. Under IFRS, Provident's PP&E assets must be divided into smaller cost centres. The net

book value of the assets on the date of transition will be allocated to the new cost centres on the basis of Provident's reserve volumes or values at that point in time.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect the Trust's reported financial position and results of operations. At this time, Provident has identified key differences that will impact the financial statements as follows:

- Presentation of Exploration and Evaluation ("E&E") expenditures separate from PP&E – Upon transition to IFRS, Provident will present all E&E expenditures as a separate component on the Consolidated Balance Sheet. This will include the book value for Provident's land that relates to undeveloped properties. E&E assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.
- Calculation of depletion expense for Upstream PP&E assets – Upon transition to IFRS, Provident has the option to calculate depletion using a reserve base of proved reserves or both proved and probable reserves, as compared to the Canadian GAAP method of calculating depletion using only proved reserves. Provident has not concluded at this time which method for calculating depletion will be used.
- Impairment of long-term assets – Under IFRS, impairment of long-term assets must be calculated at a more granular level than what is currently required under Canadian GAAP. Impairment calculations will be performed at the cash generating unit level for both Upstream and Midstream long-term assets.
- Provision for asset retirement costs – Under IFRS, Provident is required to revalue its entire liability for asset retirement costs at each balance sheet date using a current liability-specific discount rate. Under Canadian GAAP, once recorded, asset retirement obligations are not adjusted for future changes in discount rates.

The majority of identified IFRS differences that are expected to impact the financial statements of Provident relate to the Upstream business, which was sold in the second quarter of 2010. Provident will reflect any Upstream differences on the IFRS transition balance sheet as at January 1, 2010 and for the first two quarters of 2010, however the Upstream differences are not expected to have any additional impact beyond June 30, 2010 as Provident continues as a pure-play infrastructure Midstream business.

In addition to accounting policy differences, Provident's transition to IFRS will impact the internal controls over financial reporting, disclosure controls and procedures and IT systems as follows:

- Internal controls over financial reporting – As the review of Provident's accounting policies is completed, an assessment will be made to determine changes required to ensure the continued integrity of Provident's internal controls over financial reporting. As an example, additional controls will be implemented for the IFRS 1 changes such as the allocation of Provident's PP&E as well as the process for re-classifying Provident's E&E expenditures from PP&E. This assessment will be an ongoing process through 2010 to ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.
- IT systems – Provident is finalizing the system updates required in order to ready the Trust for IFRS reporting. The modifications while not significant are, however, deemed critical in order to allow for reporting of both Canadian GAAP and IFRS statements in 2010 as well as the modifications required to track PP&E costs and E&E costs with a more granular level of detail for IFRS reporting. Additional system modifications may be required based on final policy choices.
- Disclosure controls and procedures – Information relating to Provident's transition to IFRS, as well as the progress in completing the implementation phase described above, will continue to be communicated to senior management and the Board of Directors and reported on in Provident's annual and interim filings, including its MD&A. As a result, Provident's disclosure controls and procedures will ensure that

stakeholders are provided with sufficient information to assist in understanding the impact of the IFRS transition on Provident.

## **Business risks**

The trust industry is subject to risks that can affect the amount of funds flow from operations available for distribution to unitholders, and the ability to grow. These risks include but are not limited to:

- capital markets, credit and liquidity risks and the ability to finance future growth; and
- the impact of Canadian governmental regulation on Provident, including the effect of the legislated tax on trust distributions.

The midstream industry is subject to risks that can affect the amount of cash flow available for distribution to unitholders and the ability to grow. These risks include but are not limited to:

- operational matters and hazards including the breakdown or failure of equipment, information systems or processes, the performance of equipment at levels below those originally intended, operator error, labour disputes, disputes with owners of interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, fractures, acts of eco-terrorists and saboteurs, and other similar events, many of which are beyond the control of the Trust or Provident;
- the Midstream NGL assets are subject to competition from other gas processing plants, and the pipelines and storage, terminal and processing facilities are also subject to competition from other pipelines and storage, terminal and processing facilities in the areas they serve, and the gas products marketing business is subject to competition from other marketing firms;
- exposure to commodity price, exchange rate and interest rate fluctuations;
- reduction in the volume of throughput or the level of demand;
- the ability to attract and retain employees;
- increasing operating and capital costs;
- regulatory intervention in determining processing fees and tariffs;
- reliance on significant customers;
- government and regulatory risk;
- changes to environmental regulations; and
- environmental, health and safety risks.

Provident strives to minimize these business risks by:

- employing and empowering management and technical staff with extensive industry experience and providing competitive remuneration;
- adhering to a disciplined Commodity Price Risk Management Program to mitigate the impact that volatile commodity prices have on cash flow available for distribution;
- marketing natural gas liquids and related services to selected, credit worthy customers at competitive rates;
- maintaining a competitive cost structure to maximize cash flow and profitability;
- maintaining prudent financial leverage and developing strong relationships with the investment community and capital providers;
- adhering to strict guidelines and reporting requirements with respect to environmental, health and safety practices; and

- maintaining an adequate level of property, casualty, comprehensive and directors' and officers' insurance coverage.

Readers should be aware that the risks set forth herein are not exhaustive. Readers are referred to Provident's annual information form, which is available at [www.sedar.com](http://www.sedar.com), for a detailed discussion of risks affecting Provident.

## Unit trading activity

The following table summarizes the unit trading activity of the Provident units for each quarter in the six months ended June 30, 2010 on both the Toronto Stock Exchange and the New York Stock Exchange:

	Q1	Q2
<b>TSE – PVE.UN (Cdn\$)</b>		
High	\$ 8.61	\$ 8.51
Low <sup>(1)</sup>	\$ 7.07	\$ 5.14
Close	\$ 7.88	\$ 7.29
Volume (000s)	19,046	27,674
<b>NYSE – PVX (US\$)</b>		
High	\$ 8.40	\$ 8.51
Low <sup>(1)</sup>	\$ 6.76	\$ 5.21
Close	\$ 7.71	\$ 6.87
Volume (000s)	99,239	104,579

<sup>(1)</sup> Second quarter unit trading lows were disproportionately impacted by a market wide, one day trading anomaly originating with the NYSE on May 6, 2010. While some transactions were cancelled by the NYSE, trades on the Toronto Stock Exchange were upheld.

## Forward-looking information

This MD&A contains forward-looking information under applicable securities legislation. Statements which include forward-looking information relate to future events or the Trust's future performance. Such forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. All statements other than statements of historical fact are forward-looking information. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", or the negative of these terms or other comparable terminology. Forward looking information in this MD&A includes, but is not limited to, business strategy and objectives, capital expenditures, acquisition and disposition plans and the timing thereof, operating and other costs, budgeted levels of cash distributions and the performance associated with Provident's natural gas midstream, NGL processing and marketing business. Specifically, the "Outlook" section in this MD&A may contain forward-looking information about prospective results of operations, financial position or cash flows of the Trust. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those anticipated by the Trust and described in the forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third party industry sources. Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking information will not occur. Forward-looking information in this MD&A includes, but is not limited to, statements with respect to:

- the Trust's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets;

- the Trust's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the emergence of accretive growth opportunities;
- the ability to achieve an appropriate level of monthly cash distributions;
- the impact of Canadian governmental regulation on the Trust;
- the existence, operation and strategy of the commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed;
- changes in oil, natural gas and NGL prices and the impact of such changes on cash flow after financial derivative instruments;
- the level of capital expenditures;
- currency, exchange and interest rates;
- the performance characteristics of Provident's midstream, NGL processing and marketing business;
- the growth opportunities associated with the midstream, NGL processing and marketing business; and
- the nature of contractual arrangements with third parties in respect of Provident's midstream, NGL processing and marketing business.

Although the Trust believes that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. The Trust can not guarantee future results, levels of activity, performance, or achievements. Moreover, neither the Trust nor any other person assumes responsibility for the accuracy and completeness of the forward-looking information. Some of the risks and other factors, some of which are beyond the Trust's control, which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to:

- general economic and credit conditions in Canada, the United States and globally;
- industry conditions associated with the NGL services, processing and marketing business;
- fluctuations in the price of crude oil, natural gas and natural gas liquids;
- interest payable on notes issued in connection with acquisitions;
- income tax legislation relating to income trusts, including the effect of legislation taxing trust income;
- governmental regulation in North America of the oil and gas industry, including income tax and environmental regulation;
- fluctuation in foreign exchange or interest rates;
- stock market volatility and market valuations;
- the impact of environmental events;
- the need to obtain required approvals from regulatory authorities;
- failure to realize the anticipated benefits of acquisitions;
- competition for, among other things, capital reserves and skilled personnel;
- failure to obtain industry partner and other third party consents and approvals, when required;
- risks associated with foreign ownership;
- third party performance of obligations under contractual arrangements; and
- the other factors set forth under "Business risks" in this MD&A.

Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties. With respect to developing forward-looking information contained in this MD&A, the Trust has made assumptions regarding, among other things:

- future natural gas and crude oil prices;
- the ability of the Trust to obtain qualified staff and equipment in a timely and cost-efficient manner to meet demand;
- the regulatory framework regarding royalties, taxes and environmental matters in which the Trust conducts its business;
- the impact of increasing competition;
- the Trust's ability to obtain financing on acceptable terms;
- the general stability of the economic and political environment in which the Trust operates;
- the timely receipt of any required regulatory approvals;

- the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Trust to secure adequate product transportation;
- currency, exchange and interest rates; and
- the ability of the Trust to successfully market its oil and natural gas products.

Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used. Forward-looking information contained in this MD&A is made as of the date hereof and the Trust undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

## Quarterly table

### Financial information by quarter

(\$ 000s except for per unit and operating amounts)	2010		
	First Quarter	Second Quarter	Year-to-Date
Revenue - continuing operations	\$ 419,250	\$ 354,982	\$ 774,232
Funds flow from continuing operations <sup>(1)</sup>	\$ 46,481	\$ (170,646)	\$ (124,165)
Funds flow from continuing operations per unit			
- basic and diluted	\$ 0.18	\$ (0.64)	\$ (0.47)
Adjusted EBITDA - continuing operations <sup>(2)</sup>	\$ 51,084	\$ (175,715)	\$ (124,631)
<b>Adjusted funds flow from continuing operations <sup>(3)</sup></b>	<b>\$ 46,967</b>	<b>\$ 39,840</b>	<b>\$ 86,807</b>
<b>Adjusted funds flow from continuing operations per unit</b>			
<b>- basic and diluted</b>	<b>\$ 0.18</b>	<b>\$ 0.15</b>	<b>\$ 0.33</b>
<b>Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs</b>			
<b>- continuing operations <sup>(2)</sup></b>	<b>\$ 51,570</b>	<b>\$ 34,771</b>	<b>\$ 86,341</b>
Net loss	\$ (60,459)	\$ (344,875)	\$ (405,334)
Net loss per unit - basic and diluted	\$ (0.23)	\$ (1.30)	\$ (1.53)
Unitholder distributions	\$ 47,634	\$ 47,794	\$ 95,428
Distributions per unit	\$ 0.18	\$ 0.18	\$ 0.36
Provident Midstream NGL sales volumes (bpd)	113,279	94,030	103,601

<sup>(1)</sup> Represents cash flow from operations before changes in working capital and site restoration expenditures.

<sup>(2)</sup> Adjusted EBITDA is earnings before interest, taxes, depreciation, accretion and other non-cash items - see "Reconciliation of Non-GAAP measures".

<sup>(3)</sup> Adjusted funds flow from continuing operations excludes realized loss on buyout of financial derivative instruments and strategic review and restructuring costs.

## Quarterly table

### Financial information by quarter

(\$ 000s except for per unit and operating amounts)	2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Total
Revenue - continuing operations	\$ 406,650	\$ 235,669	\$ 395,661	\$ 414,158	\$ 1,452,138
Funds flow from continuing operations <sup>(1)</sup>	\$ 57,349	\$ 14,456	\$ 24,859	\$ 51,358	\$ 148,022
Funds flow from continuing operations per unit					
- basic and diluted	\$ 0.22	\$ 0.06	\$ 0.09	\$ 0.19	\$ 0.57
Adjusted EBITDA - continuing operations <sup>(2)</sup>	\$ 65,095	\$ 20,383	\$ 25,569	\$ 57,182	\$ 168,229
<b>Adjusted funds flow from continuing operations <sup>(3)</sup></b>	<b>\$ 57,623</b>	<b>\$ 21,858</b>	<b>\$ 24,859</b>	<b>\$ 52,937</b>	<b>\$ 157,277</b>
<b>Adjusted funds flow from continuing operations per unit - basic and diluted</b>	<b>\$ 0.22</b>	<b>\$ 0.08</b>	<b>\$ 0.09</b>	<b>\$ 0.20</b>	<b>\$ 0.60</b>
<b>Adjusted EBITDA excluding buyout of financial derivative instruments and strategic review and restructuring costs - continuing operations <sup>(2)</sup></b>	<b>\$ 65,369</b>	<b>\$ 27,785</b>	<b>\$ 25,569</b>	<b>\$ 58,761</b>	<b>\$ 177,484</b>
Net (loss) income	\$ (40,284)	\$ (80,061)	\$ 51,663	\$ (20,338)	\$ (89,020)
Net (loss) income per unit - basic and diluted	\$ (0.16)	\$ (0.31)	\$ 0.20	\$ (0.08)	\$ (0.34)
Unitholder distributions	\$ 54,511	\$ 47,012	\$ 47,238	\$ 47,456	\$ 196,217
Distributions per unit	\$ 0.21	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.75
Provident Midstream NGL sales volumes (bpd)	141,669	102,799	98,229	111,912	113,528

<sup>(1)</sup> Represents cash flow from operations before changes in working capital and site restoration expenditures.

<sup>(2)</sup> Adjusted EBITDA is earnings before interest, taxes, depreciation, accretion and other non-cash items - see "Reconciliation of Non-GAAP measures".

<sup>(3)</sup> Adjusted funds flow from continuing operations excludes realized loss on buyout of financial derivative instruments and strategic review and restructuring costs.

## Quarterly table

### Financial information by quarter

(\$ 000s except for per unit and operating amounts)	2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Total
Revenue <sup>(1)</sup>	\$ 702,215	\$ 420,220	\$ 1,097,408	\$ 1,019,320	\$ 3,239,163
Funds flow from operations <sup>(1)</sup>	\$ 130,394	\$ 165,470	\$ 139,979	\$ 81,779	\$ 517,622
Funds flow from operations per unit <sup>(1)</sup>					
- basic	\$ 0.52	\$ 0.65	\$ 0.55	\$ 0.32	\$ 2.03
Funds flow from operations per unit <sup>(1)</sup>					
- diluted	\$ 0.52	\$ 0.65	\$ 0.51	\$ 0.32	\$ 2.03
Adjusted EBITDA <sup>(2)</sup>	\$ 151,335	\$ 178,901	\$ 148,595	\$ 87,423	\$ 566,254
Net income (loss)	\$ 33,616	\$ (184,081)	\$ 351,105	\$ (43,248)	\$ 157,392
Net income (loss) per unit - basic	\$ 0.13	\$ (0.72)	\$ 1.37	\$ (0.17)	\$ 0.62
Net income (loss) per unit - diluted	\$ 0.13	\$ (0.72)	\$ 1.29	\$ (0.17)	\$ 0.62
Unitholder distributions	\$ 91,117	\$ 91,662	\$ 92,188	\$ 77,324	\$ 352,291
Distributions per unit	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.30	\$ 1.38
Provident Midstream NGL sales volumes (bpd)	136,320	110,826	111,313	120,222	119,649

<sup>(1)</sup> Includes Provident Upstream and Provident Midstream businesses but excludes the United States oil and natural gas production (USOGP) business which was sold and accounted for as discontinued operations in 2008.

<sup>(2)</sup> Adjusted EBITDA is earnings before interest, taxes, depreciation, accretion and other non-cash items - see "Reconciliation of Non-GAAP measures".

**PROVIDENT ENERGY TRUST**  
**CONSOLIDATED BALANCE SHEETS**

Canadian dollars (000s)  
(unaudited)

	As at June 30, 2010	As at December 31, 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ -	\$ 7,187
Accounts receivable	181,102	216,786
Petroleum product inventory	87,533	37,261
Prepaid expenses and other current assets	5,876	4,803
Financial derivative instruments (note 6)	2,353	5,314
	<b>276,864</b>	<b>271,351</b>
Investments	-	18,733
Property, plant and equipment	805,330	2,025,044
Intangible assets	125,662	132,478
Goodwill	100,409	100,409
Future income taxes	32,601	-
	<b>\$ 1,340,866</b>	<b>\$ 2,548,015</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 190,375	\$ 221,417
Cash distributions payable	13,454	13,468
Current portion of convertible debentures	147,505	-
Financial derivative instruments (note 6)	8,253	86,441
	<b>359,587</b>	<b>321,326</b>
Long-term debt - revolving term credit facility (note 2)	243,267	264,776
Long-term debt - convertible debentures (note 2)	95,271	240,486
Asset retirement obligation (note 3)	21,334	61,464
Long-term financial derivative instruments (note 6)	12,058	103,403
Other long-term liabilities (notes 3 and 5)	23,790	12,496
Future income taxes	-	162,665
<b>Unitholders' equity</b>		
Unitholders' contributions (note 4)	2,847,789	2,834,177
Convertible debentures equity component	15,940	15,940
Contributed surplus	2,953	2,953
Accumulated (loss) income	(68,320)	337,014
Accumulated distributions (note 9)	(2,212,803)	(1,808,685)
	<b>585,559</b>	<b>1,381,399</b>
	<b>\$ 1,340,866</b>	<b>\$ 2,548,015</b>

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

**PROVIDENT ENERGY TRUST**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED INCOME**

Canadian dollars (000s except per unit amounts)  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Revenue</b>				
Product sales and service revenue (note 7)	\$ 366,125	\$ 333,354	\$ 839,065	\$ 810,410
Realized loss on buyout of financial derivative instruments (note 6)	(199,059)	-	(199,059)	-
Realized loss on financial derivative instruments	(7,811)	(18,817)	(29,903)	(8,053)
Unrealized gain offsetting buyout of financial derivative instruments (note 6)	177,723	-	177,723	-
Unrealized gain (loss) on financial derivative instruments	18,004	(78,868)	(13,594)	(160,038)
	<b>354,982</b>	<b>235,669</b>	<b>774,232</b>	<b>642,319</b>
<b>Expenses</b>				
Cost of goods sold	308,623	269,262	683,879	664,864
Production, operating and maintenance	4,629	3,354	8,377	7,026
Transportation	3,438	4,595	8,835	12,276
Depreciation and accretion	10,964	9,485	21,728	18,897
General and administrative (note 5)	6,184	10,486	15,736	22,111
Strategic review and restructuring (note 8)	11,427	7,402	11,913	7,676
Interest on bank debt	1,074	547	1,523	1,587
Interest and accretion on convertible debentures	5,189	5,746	10,380	11,491
Foreign exchange (gain) loss and other	(766)	3,672	1,018	1,015
	<b>350,762</b>	<b>314,549</b>	<b>763,389</b>	<b>746,943</b>
Income (loss) from continuing operations before taxes	4,220	(78,880)	10,843	(104,624)
Current tax (recovery) expense	(10,186)	854	(10,079)	3,048
Future income tax expense (recovery)	3,704	(24,587)	(13,634)	(46,964)
	<b>(6,482)</b>	<b>(23,733)</b>	<b>(23,713)</b>	<b>(43,916)</b>
Net income (loss) from continuing operations	10,702	(55,147)	34,556	(60,708)
Net loss from discontinued operations (note 9)	(355,577)	(24,914)	(439,890)	(59,637)
<b>Net loss for the period</b>	<b>\$ (344,875)</b>	<b>\$ (80,061)</b>	<b>\$ (405,334)</b>	<b>\$ (120,345)</b>
Accumulated income, beginning of period	\$ 276,555	\$ 385,750	\$ 337,014	\$ 426,034
Accumulated (loss) income, end of period	\$ (68,320)	\$ 305,689	\$ (68,320)	\$ 305,689
Net income (loss) from continuing operations				
- basic and diluted	\$ 0.04	\$ (0.21)	\$ 0.13	\$ (0.23)
Net loss per unit				
- basic and diluted	\$ (1.30)	\$ (0.31)	\$ (1.53)	\$ (0.46)

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

**PROVIDENT ENERGY TRUST**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

Canadian dollars (000s)  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Cash (used for) provided by operating activities</b>				
Net income (loss) for the period from continuing operations	\$ 10,702	\$ (55,147)	\$ 34,556	\$ (60,708)
Add (deduct) non-cash items:				
Depreciation and accretion	10,964	9,485	21,728	18,897
Non-cash interest expense and other	1,146	1,220	2,290	2,453
Non-cash unit based compensation (recovery) expense (note 5)	(258)	2,620	(4,427)	(2,318)
Unrealized gain offsetting buyout of financial derivative instruments	(177,723)	-	(177,723)	-
Unrealized (gain) loss on financial derivative instruments	(18,004)	78,868	13,594	160,038
Unrealized foreign exchange (gain) loss and other	(1,177)	1,997	(549)	407
Future income tax expense (recovery)	3,704	(24,587)	(13,634)	(46,964)
Continuing operations	(170,646)	14,456	(124,165)	71,805
Discontinued operations	(15,114)	34,060	(2,436)	60,992
	(185,760)	48,516	(126,601)	132,797
Site restoration expenditures related to discontinued operations	(1,002)	(1,210)	(2,041)	(4,184)
Change in non-cash operating working capital	(46,473)	6,801	(23,832)	58,162
	(233,235)	54,107	(152,474)	186,775
<b>Cash provided by (used for) financing activities</b>				
Increase (decrease) in long-term debt	143,081	15,194	(21,509)	6,333
Distributions to unitholders	(47,794)	(47,012)	(95,428)	(101,523)
Issue of trust units	6,689	6,394	13,612	14,034
Change in non-cash financing working capital	(146)	174	(14)	(6,415)
	101,830	(25,250)	(103,339)	(87,571)
<b>Cash provided by (used for) investing activities</b>				
Capital expenditures	(11,252)	(26,548)	(40,610)	(83,054)
Acquisitions	(860)	(119)	(27,564)	(493)
Proceeds on sale of Upstream assets	2,420	-	208,831	-
Proceeds on sale of discontinued operations	111,779	-	111,779	-
Change in non-cash investing working capital	24,250	(5,347)	(3,810)	(19,313)
	126,337	(32,014)	248,626	(102,860)
<b>Decrease in cash and cash equivalents</b>	(5,068)	(3,157)	(7,187)	(3,656)
<b>Cash and cash equivalents, beginning of period</b>	5,068	4,130	7,187	4,629
<b>Cash and cash equivalents, end of period</b>	\$ -	\$ 973	\$ -	\$ 973
<b>Supplemental disclosure of cash flow information</b>				
Cash interest paid including debenture interest	\$ 9,265	\$ 7,086	\$ 13,463	\$ 15,130
Cash taxes (received) paid	\$ (103)	\$ 2,743	\$ 1,092	\$ 1,960

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

**PROVIDENT ENERGY TRUST**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**AND ACCUMULATED OTHER COMPREHENSIVE INCOME**  
Canadian dollars (000s)  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Net loss for the period</b>	\$ (344,875)	\$ (80,061)	\$ (405,334)	\$ (120,345)
<b>Other comprehensive loss, net of taxes</b>				
Unrealized loss on available-for-sale investments (net of taxes)	-	120	-	44
	-	120	-	44
<b>Comprehensive loss</b>	\$ (344,875)	\$ (79,941)	\$ (405,334)	\$ (120,301)
Accumulated other comprehensive loss, beginning of period	-	(2,259)	-	(2,183)
Other comprehensive loss	-	120	-	44
<b>Accumulated other comprehensive loss, end of period</b>	\$ -	\$ (2,139)	\$ -	\$ (2,139)
Accumulated (loss) income, end of period	(68,320)	305,689	(68,320)	305,689
Accumulated distributions, end of period	(2,212,803)	(1,713,991)	(2,212,803)	(1,713,991)
Retained earnings (deficit), end of period	(2,281,123)	(1,408,302)	(2,281,123)	(1,408,302)
Accumulated other comprehensive loss, end of period	-	(2,139)	-	(2,139)
<b>Total retained earnings (deficit) and accumulated other comprehensive loss, end of period</b>	\$ (2,281,123)	\$ (1,410,441)	\$ (2,281,123)	\$ (1,410,441)

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

# Notes to the Consolidated Financial Statements

(Tabular amounts in Cdn \$ 000's, except unit and per unit amounts, and as noted)  
(unaudited)

June 30, 2010

## 1. Significant accounting policies

The Interim Consolidated Financial Statements have been prepared based on the consistent application of the accounting policies as set out in the Consolidated Financial Statements of the Trust for the year ended December 31, 2009 and are consistent with policies adopted in the second quarter of 2009. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted. These Interim Consolidated Financial Statements should be read in conjunction with the Trust's audited Financial Statements and notes for the year ended December 31, 2009. Certain comparative numbers have been reclassified to conform with the current period's presentation. In particular, the comparative figures have been reclassified to reflect discontinued operations presentation for the Canadian oil and natural gas production ("Provident Upstream" or "COGP") business (see note 9).

## 2. Long-term debt

	As at June 30, 2010	As at December 31, 2009
Revolving term credit facility	\$ 243,267	\$ 264,776
Convertible debentures	95,271	240,486
Current portion of convertible debentures	147,505	-
	<b>242,776</b>	240,486
Total	\$ 486,043	\$ 505,262

### i) Revolving term credit facility

The Trust has entered into a new credit agreement (the "Credit Facility") as of June 29, 2010, among the Trust, National Bank of Canada and TD Securities as co-leads and arrangers and a syndicate of Canadian chartered banks and other Canadian and foreign financial institutions (the "Lenders"). Pursuant to the Credit Facility, the Lenders have agreed to provide the Trust with a credit facility of \$500 million under an accordion feature which can be increased to \$750 million at the option of the Trust. The Credit Facility also provides for a separate \$60 million Letter of Credit facility.

The terms of the credit facility have a revolving three year period expiring on June 28, 2013. The Trust may draw on the facility by way of Canadian prime rate loans, U.S. base rate loans, banker's acceptances or LIBOR loans. As at June 30, 2010, Provident had drawn \$247.5 million or 50 percent of its term credit facility as compared to \$265.0 million or 26 percent drawn as at December 31, 2009. Included in the carrying value at June 30, 2010 were financing costs of \$2.8 million (December 31, 2009 – nil). At June 30, 2010 the effective interest rate of the outstanding credit facility was 3.4 percent (December 31, 2009 – 1.4 percent).

At June 30, 2010 Provident had \$33.5 million in letters of credit outstanding (December 31, 2009 - \$27.2 million) that guarantee Provident's performance under certain commercial and other contracts.

ii) **Convertible debentures**

On closing of the Arrangement effecting the merger of Provident's oil and natural gas production business with Midnight Oil Exploration to form Pace Oil & Gas Ltd., Provident's convertible debentures Conversion Prices were adjusted in accordance with the applicable debenture indenture. The Conversion Price for Provident's 6.5% Debentures maturing on August 31, 2012 was adjusted from \$13.75 per Trust Unit to \$11.56 per Trust Unit. The conversion price for Provident's 6.5% Debentures maturing on April 30, 2011 was adjusted from \$14.75 to \$12.40 per Trust Unit.

The Trust may elect to satisfy interest and principal obligations by the issue of trust units. For the six months ended June 30, 2010, no debentures were converted to trust units at the election of debenture holders (2009 – nil). Included in the carrying value at June 30, 2010 were financing costs of \$2.1 million. The following table details each outstanding convertible debenture:

Convertible Debentures (\$000s except conversion pricing)	As at June 30, 2010		As at December 31, 2009		Maturity Date	Conversion Price per unit <sup>(2)</sup>
	Carrying Value <sup>(1)</sup>	Face Value	Carrying Value <sup>(1)</sup>	Face Value		
6.5% Convertible Debentures	\$ 147,505	\$ 149,980	\$ 146,028	\$ 149,980	April 30, 2011	12.40
6.5% Convertible Debentures	95,271	98,999	94,458	98,999	Aug. 31, 2012	11.56
	<b>\$ 242,776</b>	<b>\$ 248,979</b>	<b>\$ 240,486</b>	<b>\$ 248,979</b>		

<sup>(1)</sup> Excluding equity component of convertible debentures

<sup>(2)</sup> The debentures may be converted into trust units at the option of the holder of the debenture at the conversion price per unit

**3. Asset retirement obligation**

The Trust's asset retirement obligation is based on the Trust's ownership in property, plant and equipment and represents management's estimate of the costs to abandon and reclaim those assets as well as an estimate of the future timing of the costs to be incurred. Estimated cash flows have been discounted at the Trust's average credit-adjusted risk free rate of seven percent and an inflation rate of two percent has been estimated for future years.

(\$ 000s)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Carrying amount, beginning of period	\$ 60,136	\$ 57,612	\$ 61,464	\$ 59,432
Acquisitions	-	-	1,442	-
Dispositions	(29,224)	-	(32,016)	-
Change in estimate	4,763	-	4,763	-
Increase in liabilities incurred during the period	220	22	220	138
Settlement of liabilities during the period				
- discontinued operations	(1,002)	(1,210)	(2,041)	(4,184)
Transfer to other long-term liabilities <sup>(1)</sup>	(14,691)	-	(14,691)	-
Accretion of liability - continuing operations	361	276	693	548
Accretion of liability - discontinued operations	771	779	1,500	1,545
<b>Carrying amount, end of period</b>	<b>\$ 21,334</b>	<b>\$ 57,479</b>	<b>\$ 21,334</b>	<b>\$ 57,479</b>

<sup>(1)</sup> Obligations associated with residual Upstream properties of \$14.7 million have been classified as other long-term liabilities on the balance sheet as at June 30, 2010.

#### 4. Unitholders' contributions

The Trust has authorized capital of an unlimited number of common voting trust units.

	Six months ended June 30,			
	2010		2009	
Trust Units	Number of units	Amount (000s)	Number of units	Amount (000s)
Balance at beginning of period	264,336,636	\$ 2,834,177	259,087,789	\$ 2,806,071
Issued pursuant to the distribution reinvestment plan	1,460,111	11,114	2,505,648	12,011
To be issued pursuant to the distribution reinvestment plan	330,657	2,498	365,871	2,023
<b>Balance at end of period</b>	<b>266,127,404</b>	<b>\$ 2,847,789</b>	261,959,308	\$ 2,820,105

The basic and diluted per trust unit amounts for the three months ended June 30, 2010 were calculated based on the weighted average number of units outstanding of 265,378,715 (2009 – 261,003,339).

The basic and diluted per trust units amounts for the six months ended June 30, 2009 were calculated based on the weighted average number of units outstanding of 264,939,063 (2009 – 260,199,185).

#### 5. Unit based compensation

##### Restricted/Performance units

At June 30, 2010, \$2.5 million (December 31, 2009 - \$12.2 million) is included in accounts payable and accrued liabilities for this plan and \$9.1 million (December 31, 2009 - \$12.5 million) is included in other long-term liabilities.

The following table reconciles the expense recorded for RTUs and PTUs.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Cash general and administrative	\$ (9)	\$ (10)	\$ 6,880	\$ 5,105
Non-cash unit based compensation (included in general and administrative)	(258)	2,620	(4,427)	(2,318)
Production, operating and maintenance expense	(158)	350	82	410
	\$ (425)	\$ 2,960	\$ 2,535	\$ 3,197

The following table provides a continuity of the Trust's RTU and PTU plans:

	RTUs	PTUs
Opening balance January 1, 2010	1,576,123	3,959,122
Grants	524,344	1,860,522
Reinvested through notional distributions	47,128	206,397
Exercised	(841,731)	(2,843,779)
Cancelled	(291,053)	(265,303)
<b>Ending balance June 30, 2010</b>	<b>1,014,811</b>	<b>2,916,959</b>

At June 30, 2010, all RTUs and PTUs have been valued at market price.

## 6. Financial instruments

The following table is a summary of the net financial derivative instruments liability:

(\$ 000s)	As at June 30,		As at December 31,	
	2010		2009	
<b>Provident Upstream</b>	\$	-	\$	2,438
<b>Provident Midstream</b>				
Crude oil		3,299		103,022
Natural gas		12,332		79,847
NGL's (includes propane, butane)		(1,132)		(330)
Electricity		(295)		(26)
Foreign exchange		3,518		(623)
Interest		236		202
<b>Total</b>	\$	<b>17,958</b>	\$	<b>184,530</b>

### Settlement of financial derivative contracts

#### Midstream financial derivative contract buyout

In April, 2010, Provident completed the buyout of all fixed price crude oil and natural gas swaps associated with the Midstream business unit for a total realized cost of \$199.1 million. The carrying value of these specific contracts at March 31, 2010 was a liability of \$177.7 million resulting in an offsetting unrealized gain in the second quarter of 2010. The buyout of Provident's forward mark to market positions allows the Trust to refocus its Commodity Price Risk Management Program on forward selling a portion of actual produced NGL products and inventory to lock-in margins for terms of up to two years. Provident has retained certain participating crude oil and natural gas swaps and the NGL throughput and inventory contracts that utilize financial derivative instruments based directly on underlying NGL products.

The following table summarizes the impact of financial derivative contracts settled during the three and six months ended June 30, 2010 and 2009 that are included in realized loss on financial derivative instruments. The table excludes the impact of the Midstream financial derivative contract buyout, presented separately on the Consolidated Statement of Operations.

Realized loss on financial derivative instruments (\$ 000s except volumes)	Three months ended June 30,				Six months ended June 30,			
	2010		2009		2010		2009	
	Volume <sup>(1)</sup>		Volume <sup>(1)</sup>		Volume <sup>(1)</sup>		Volume <sup>(1)</sup>	
Crude oil	\$ (3,938)	0.5	\$ 10,014	1.0	\$ (11,151)	1.2	\$ 35,436	2.2
Natural gas	(5,900)	2.0	(26,675)	5.7	(21,979)	7.2	(43,940)	11.4
NGL's (includes propane, butane)	619	0.1	(317)	0.1	1,154	0.4	5,479	0.2
Foreign exchange	1,037		(1,254)		2,172		(4,257)	
Electricity	700		(474)		600		(660)	
Interest rate	(329)		(111)		(699)		(111)	
<b>Realized loss on financial derivative instruments</b>	<b>\$ (7,811)</b>		<b>\$ (18,817)</b>		<b>\$ (29,903)</b>		<b>\$ (8,053)</b>	

<sup>(1)</sup> The above table represents aggregate net volumes that were bought/sold over the periods. Crude oil and NGL volumes are listed in millions of barrels and natural gas is listed in millions of gigajoules.

## 7. Product sales and service revenue

For the three and six months ended June 30, 2010, included in product sales and service revenue is \$30.3 million (2009 - \$28.7 million) and \$98.2 million (2009 - \$109.8 million), respectively, associated with the U.S. midstream operations.

## 8. Strategic review and restructuring

In continuation with the previously announced strategic review process, on April 19, 2010, Provident announced a strategic transaction to separate its Upstream and Midstream businesses. An agreement was reached with Midnight Oil Exploration Ltd. (“Midnight”) to combine the remaining Provident Upstream business with Midnight in a \$422 million transaction as valued at closing. The arrangement received the approval of Provident unitholders and Midnight shareholders, as well as court and regulatory approvals that are typical for transactions of this nature. Closing of this arrangement occurred on June 29, 2010. In conjunction with this transaction and other initiatives, Provident completed an internal reorganization to continue as a pure play, cash distributing natural gas liquids (NGL) infrastructure and services business which resulted in staff reductions at all levels of the organization, including senior management.

For the second quarter of 2010, strategic review and restructuring costs were \$28.7 million, of which \$11.4 million were attributable to continuing operations (2009 - \$9.5 million and \$7.4 million, respectively). For the six months ended June 30, 2010, strategic review and restructuring costs were \$29.8 million, of which \$11.9 million were attributable to continuing operations (2009 – \$9.7 million and \$7.7 million, respectively). The costs are comprised primarily of severance, consulting and legal costs.

## 9. Discontinued operations (Provident Upstream)

On June 29, 2010, Provident completed a strategic transaction in which Provident combined the remaining Provident Upstream business with Midnight Oil Exploration Ltd. (“Midnight”) to form Pace Oil & Gas Ltd. (“Pace”) pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the “Arrangement”). Under the Arrangement, Midnight acquired all outstanding shares of Provident Energy Resources Inc., a wholly-owned subsidiary of Provident Energy Trust which holds all of the oil and gas properties and reserves associated with Provident’s Upstream business. Effective in the second quarter of 2010, Provident’s Upstream business is accounted for as discontinued operations and comparative figures have been reclassified to conform with this presentation. Total consideration from the transaction was \$428.7 million, consisting of \$120 million in cash, offset by a potential minor post-closing adjustment, and approximately 32.5 million shares of Pace valued at \$308.7 million at the time of the closing. Associated transaction costs were \$6.9 million. Under the terms of the Arrangement, Provident unitholders divested a portion of each of their Provident units to receive 0.12225 shares of Pace, which was recorded as a non-cash distribution by the Trust, valued at \$308.7 million. Provident recorded a loss on sale of \$476.6 million and \$157.6 million in future tax recovery related to this transaction. This transaction completed the full sale of the Provident Upstream business in a series of transactions between September 2009 to June 2010.

The following table presents information on the net loss from discontinued operations.

Net income from discontinued operations Canadian dollars (000's)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 32,481	\$ 78,883	\$ 77,114	\$ 151,125
Loss from discontinued operations before taxes and impact of sale of discontinued operations	(41,817)	(44,452)	(144,774)	(93,743)
Loss on sale of discontinued operations	(476,638)	-	(476,638)	-
Capital tax expense	-	(1,374)	-	(1,692)
Current tax (expense) recovery	-	(72)	(1)	1
Future income tax recovery	162,878	20,984	181,523	35,797
Net loss from discontinued operations for the period	\$ (355,577)	\$ (24,914)	\$ (439,890)	\$ (59,637)