



ProspEx Announces 2008 Second Quarter Results

July 31, 2008

(All amounts are in Canadian dollars, unless stated otherwise)

ProspEx Resources Ltd. ("ProspEx" or the "Company") is pleased to provide its financial and operating results for the three and six month period ended June 30, 2008.

"ProspEx achieved significant production growth during the second quarter as a result of a successful winter drilling program" said John Rossall, President and Chief Executive Officer. "Our summer drilling program is now underway in West Central Alberta, with drilling operations in the Deep Basin scheduled to start within the next week."

HIGHLIGHTS

- Production for the second quarter of 2008 was 4,285 barrels of oil equivalent ("boe") per day, a 13% increase over the prior quarter.
- In the first quarter, ProspEx drilled two wells in the Kakwa area that have now been on production for over three months. Current production from these two wells totals about 600 (360 net) boe per day. The Company believes that these two wells have defined a significant new opportunity that could require either four vertical wells per section or horizontal drilling with multi-stage fracturing to fully develop.
- The Company expanded its three dimensional ("3D") seismic coverage in Edson, Kakwa and Ricinus with the acquisition of approximately 320 square kilometers of new data. This data will allow ProspEx to select drilling locations to follow up on successful winter drilling.
- ProspEx's summer drilling program started in late June, and two (1.5 net) wells have been drilled and cased to date in the third quarter in Harmattan and Willesden Green in West Central Alberta. An additional well is currently being drilled at Harmattan.
- Cash flow before changes in operating non-cash working capital items for the quarter was \$14.9 million, an increase of 33% compared to the prior year due to higher commodity prices. Cash flow increased from the prior quarter due to growth in volumes and higher commodity prices.
- The Company showed earnings of \$2.3 million in the second quarter, despite a \$2.8 million unrealized mark to market loss on financial instruments, as natural gas prices at quarter end had increased significantly compared to the pricing of financial instruments put in place earlier this year.
- Net debt excluding after tax unrealized financial instrument losses was \$43.2 million at June 30, 2008 compared to \$55.8 million at the end of the prior quarter, reflecting the increased cash flow over the quarter and reduced capital spending due to the spring break-up period and the proceeds from the previously announced disposition of Granum area assets.

OPERATIONAL REVIEW

Capital Program

Capital expenditures for exploration and development before acquisitions and dispositions were \$8.6 million during the second quarter of 2008. Approximately half of this total was spent on land and seismic, with the Company

expanding its 3D seismic coverage in Edson, Kakwa and Ricinus. In Edson, approximately 200 square kilometers of seismic was acquired to extend ProspEx's coverage along the prospective play fairway. At Kakwa, an additional 60 square kilometers of seismic data was acquired offsetting successful wells drilled in the first quarter, and to provide "template" data over recent industry drilling in the area. This additional data provides the Company with 3D seismic coverage over essentially all of its lands in Kakwa. At Ricinus, 60 square kilometers of 3D seismic was obtained to evaluate potential exploration opportunities on recently consolidated lands.

Drilling and completions expenditures were modest in the second quarter due to the annual spring break-up period. No wells were rig released in the second quarter. ProspEx's summer drilling program began in late June with two (1.5 net) wells drilled in West Central Alberta since the end of the second quarter. This drilling includes a successful trend extension well at Harmattan (100% working interest) and a successful development well (50% working interest) at Willesden Green. An infill well (50% working interest) at Harmattan is currently being drilled. Following this Harmattan well, drilling activity will shift to the Ricinus area, where three (2.3 net) wells are planned.

Drilling operations are scheduled to begin at Wapiti in the Deep Basin in the next week. After this initial Wapiti well, drilling activity will resume later in the third quarter at Kakwa, where ProspEx enjoyed significant success during the first quarter of 2008. Two of the first quarter Kakwa wells have been on production since late March and are now producing at stable gross rates of 1.5 and 2.0 million cubic feet ("mmcf") per day. Three dimensional seismic has been used to define the prospective fairway tested by these two wells and based on the Company's interpretation of the seismic data, ProspEx estimates that the pool may be three to seven sections in areal extent. Internal estimates as of the date of this release indicate that gross gas in place volumes may range from 20 to 55 billion cubic feet ("bcf"), depending on the average net pay thickness, porosity and productive area of the pool. At this time ProspEx is not able to further define the resources described above due to the early state of development of the pool. ProspEx has an average working interest of 55% in this pool.

Please note that the foregoing estimate does not represent recoverable natural gas and there is no certainty that any additional portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

Given the large resource estimate relative to productivity, the Company believes that this trend may require up to four vertical wells per section to fully develop, or may be a good candidate for horizontal drilling with multi-stage fracturing technology. The first wells in the Kakwa program will be vertical wells to delineate the prospective fairway, followed by vertical or horizontal development wells contingent on delineation drilling and further technical analysis.

ProspEx has also identified an additional analogous exploration opportunity using 3D seismic on its Kakwa lands which will be tested as part of the upcoming drilling program. ProspEx has six to eight wells planned in its fall and winter drilling program in the Kakwa area. The Company has an inventory of 12 (6.4 net) locations on undrilled sections within the two Kakwa play fairways.

At Edson, the 8-13-54-19W5 well (ProspEx 35% working interest) was successfully drilled and production tested in the Devonian Wabamun formation during the first quarter. The pipeline tie-in for this well has been licensed and longer delivery equipment has been ordered, with production now expected to commence late in 2008. The operator of the Edson lands is advancing four additional locations through the regulatory process: two follow-ups to the 8-13 well, and two exploratory locations. ProspEx has developed an inventory of 10 (3.5 net) additional drilling locations on Company land utilizing 3D seismic.

At Salter, a horizontal well was drilled and completed in the first quarter in the Mississippian Rundle Group in a Foothills structure. Relicensing of the existing pipeline to this well site is in progress to accommodate production from the horizontal well, and is expected to be on stream at the end of the third quarter, at a facilities restricted rate of 2 mmcf per day. ProspEx has a 40% working interest in the production from this well.

In Southern Alberta, surface acquisition is underway for a ten well program at Medallion that is expected to commence late in the third quarter.

The previously announced disposition of properties in the Granum area effective April 1, 2008 was closed during the second quarter. The consideration received was \$5.6 million, prior to closing adjustments. These properties include approximately 110 boe per day of net production and 2,660 net acres of undeveloped land.

Subsequent to quarter end, ProspEx closed an acquisition of partner interests in the Ricinus area for consideration of \$3.35 million, subject to normal closing adjustments, effective July 1, 2008. These properties include approximately 60 boe per day of net production and 400 net acres of undeveloped land. This acquisition is a follow up to the previous acquisition that closed in January, 2008, further consolidating the Company's Ricinus lands.

Also subsequent to quarter end, the Company disposed of its lands in the Shaw area (2,500 net undeveloped acres), which were due to expire in August of this year, for consideration of \$1.0 million.

Production

Production (boe/d)	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Southern Alberta	1,009	1,109	1,134	1,190	1,122
West Central	1,904	1,236	1,305	1,466	1,397
Deep Basin	1,362	1,425	1,472	1,589	1,713
Other	10	11	11	9	9
Total	4,285	3,781	3,922	4,254	4,241

Production for the second quarter of 2008 was 4,285 boe per day, 13% greater than the prior quarter. New production was brought on stream at Kakwa in the Deep Basin, as discussed above, and at Harmattan in West Central Alberta, where three (3.0 net) wells were tied into the local midstream plant. Subsequent to the quarter end, the three Harmattan wells were offline for approximately five days due to a fire at a third party gas processing facility, but have since resumed production.

Second quarter 2008 production of 4,285 boe per day is only 1% greater than the same quarter in 2007. This was expected as the Company elected to pursue a measured pace of capital spending in the second half of 2007 due to low natural gas prices, resulting in full year 2007 capital spending of only \$48.6 million. Consequently, new production additions have only just offset production declines. With a 2008 capital budget of \$65.0 million, the Company is positioned to grow its production through 2009.

2008 Guidance Summary

Annual production	4,200 to 4,500 boe per day
Capital expenditures	\$65 million
Operating costs	\$8.50 per boe
General and administration ("G&A") costs	\$2.15 per boe
Royalties	20%

Guidance for 2008 is summarized in the table above. Guidance regarding capital expenditures, operating costs, G&A costs and royalties may constitute "financial outlooks" as contemplated by National Instrument 51-102 of the Canadian Securities Administrators entitled *Disclosure Obligations*. The purpose of such financial outlooks is to forecast the anticipated operating results of the Company in 2008. Please be advised that the information may not be appropriate for other purposes.

The Company's total 2008 capital budget, including acquisition expenditures and disposition proceeds, is unchanged at \$65.0 million. Guidance with respect to annual average production guidance, operating costs, royalties and G&A expenses is also unchanged.

Reader's Advisory

ProspEx is a Calgary based junior oil and gas company focused on exploration for natural gas in the Western Canadian Sedimentary Basin.

Certain information contained in this press release constitutes forward-looking information or statements including, without limitation, information and statements respecting: anticipated cash flow, capital expenditures, production forecasts, production additions and deletions, reserves and resources additions and deletions, additions to and deletions from the Company's historical and future capital programs, acquisitions or dispositions, operating expenses, G&A, royalties, expected timing of the tie-in of wells, expected timing of the receipt of regulatory approvals and expected timing of the completion of facilities projects.

Statements relating to "reserves" and "resources" are forward-looking information as they involve the implied assessment, based on certain estimates and assumptions that, among others, the reserves and resources described exist in the quantities predicted or estimated.

Forward-looking information and statements are often, but not always, identified by the use of words such as "anticipate", "seek", "believe", "expect", "hope", "plan", "intend", "forecast", "target", "project", "guidance", "may", "might", "will", "should", "could", "estimate", "predict" or similar words or expressions suggesting future outcomes or language suggesting an outlook. By their very nature, forward-looking information and statements involve inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking information and statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to vary materially from the forward-looking information or statements. These factors include, but are not limited to: the volatility of oil and gas prices; production and development costs and capital expenditures; the imprecision of reserve and resource estimates and estimates of recoverable quantities of oil, natural gas and liquids; the Company's ability to replace and expand oil and gas reserves; environmental claims and liabilities; incorrect assessments of value when making acquisitions or dispositions; increases in debt service charges; the loss of key personnel; the marketability of production; defaults by third party operators; unforeseen title defects; fluctuations in foreign currency and exchange rates; inadequate insurance coverage; compliance with environmental laws and regulations; changes in tax and royalty laws; the Company's ability to access external sources of debt and equity capital; and the Company's ability to obtain equipment in a timely manner to carry out development activities. Further information regarding these factors may be found under the headings "*Risk Factors*" and "*Industry Conditions*" in the Company's most recent Annual Information Form, under the heading "*Business Risks*" in the Company's Management's Discussion and Analysis for the year ended December 31, 2007, and in the Company's most recent consolidated financial statements, management information circular, quarterly reports, material change reports and news releases available under the Company's profile on SEDAR (www.sedar.com). Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should also carefully consider information set forth in the section "Forward-Looking Information" of the Company's most recent Annual Information Form respecting the assumptions upon which the Company bases certain forward-looking information and the uncertainties inherent in such assumptions.

The Company does not assume responsibility for the accuracy and completeness of the forward-looking information or statements and such information and statements should not be taken as guarantees of future outcomes. Subject to applicable securities laws, the Company does not undertake any obligation to revise these forward-looking information or statements to reflect subsequent events or circumstances. Furthermore, the forward-looking information contained in this press release are made as of the date of this document and the Company does not

undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. The forward-looking information and statements contained in this press release are expressly qualified by this cautionary statement.

The term boe may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

ProspEx Resources Ltd.
Consolidated Highlights
For the period ended

(unaudited)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
FINANCIAL (\$000's)				
Oil and gas revenue	24,567	17,554	41,945	31,625
Net earnings	2,261	2,235	151	441
Cash flow ⁽¹⁾	14,926	11,189	24,108	18,722
Total assets	192,681	171,361	192,681	171,361
Total net debt ⁽²⁾	43,224	39,336	43,224	39,336
Net earnings per share (\$ per share)				
Basic	0.04	0.04	0.00	0.01
Diluted	0.04	0.04	0.00	0.01
Cash flow per share (\$ per share) ⁽¹⁾				
Basic	0.26	0.21	0.42	0.35
Diluted	0.25	0.20	0.41	0.33
Weighted average common shares (000's)				
Basic	57,082	53,912	56,814	53,859
Diluted	58,709	56,560	58,400	56,429
PRODUCTION VOLUMES				
Natural gas (mcf/d)	19,957	21,108	19,510	18,945
Natural gas liquids (bbls/d)	851	513	694	402
Oil (bbls/d)	<u>108</u>	<u>210</u>	<u>88</u>	<u>147</u>
Total (boe/d)	4,285	4,241	4,033	3,707
SALES PRICES				
Natural gas (\$/mcf)	9.47	7.31	8.74	7.70
Natural gas liquids (\$/bbl)	79.09	48.47	71.88	48.48
Oil (\$/bbl)	<u>126.37</u>	<u>65.22</u>	<u>114.49</u>	<u>63.66</u>
Total (\$/boe)	63.00	45.48	57.14	47.14
NETBACKS (\$/boe)				
Price	63.00	45.48	57.14	47.14
Unrealized financial instrument (loss) gain	(7.13)	3.96	(9.94)	(2.53)
Royalties	(11.97)	(3.97)	(10.38)	(6.47)
Operating costs	(8.39)	(7.86)	(9.23)	(7.66)
Transportation	(1.00)	(1.01)	(0.98)	(1.02)
General and administrative	<u>(2.02)</u>	<u>(2.13)</u>	<u>(2.25)</u>	<u>(2.18)</u>
Total	32.49	34.47	24.36	27.28
CAPITAL (\$000's)				
Drilling and completions	2,094	1,552	12,145	10,869
Facilities	1,908	3,801	6,620	9,732
Land and lease	1,354	1,369	2,913	3,557
Seismic	2,562	311	2,826	1,015
Capitalized general and administrative	697	718	1,494	1,234
Net property acquisitions (dispositions)	(5,448)	-	6,050	-
Other capital assets	<u>99</u>	<u>34</u>	<u>159</u>	<u>108</u>
Total	3,266	7,785	32,207	26,515

(1) Cash flow is defined as cash flow from operations before changes in operating non-cash working capital.

(2) Total net debt is defined as long term debt less working capital (or plus working capital deficiency) excluding unrealized financial instrument gain (loss) and associated future tax assets (liabilities).

Cash flow and total net debt do not have standardized measures prescribed by Canadian generally accepted accounting principles and therefore may not be comparable with calculation measures for other issuers.

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the financial and operating results of ProspEx Resources Ltd. ("ProspEx" or the "Company") as well as a prospective view of the Company's activities. The MD&A is for the three and six months ended June 30, 2008, and was prepared as at July 31, 2008. The MD&A should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2007 together with the notes related thereto. The reader should be aware that historical results are not necessarily indicative of future performance.

RESULTS OF OPERATIONS

The second quarter of 2008 was highlighted by continued strengthening of the commodity price environment along with record production levels. Natural gas prices strengthened 30% to \$9.47 per million cubic feet ("mcf") from \$7.31 per mcf in the same quarter last year. Operationally, the Company saw a 13% increase in production from the first quarter of 2008 to 4,285 barrels of oil equivalent ("boe") per day. Increases in production levels reflect the successful completion of a winter drilling program in the Company's growth areas.

Net Earnings and Cash Flow

Cash flow for the second quarter of 2008 was \$14.9 million, an increase of 33% from the same period of 2007. This was driven by a 39% increase in average realized prices.

During the second quarter of 2008, the Company reported net earnings of \$2.3 million which is a 1% increase over the same period in 2007 and an improvement of \$4.4 million from 2008's first quarter net loss. The increase in earnings was due to stronger prices and production growth during the second quarter of 2008. For the six months ending June 30, 2008, net earnings were \$0.2 million compared to \$0.4 million from the same period of 2007.

Revenue

(\$000's)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Natural gas	\$ 18,605	\$ 14,004	\$ 32,344	\$ 25,634
Realized gain (loss) on financial instruments	(1,407)	39	(1,307)	768
Total natural gas	17,198	14,043	31,037	26,402
Oil	1,245	1,245	1,832	1,692
Natural gas liquids	6,124	2,266	9,076	3,531
Oil and gas revenue	24,567	17,554	41,945	31,625
Unrealized financial instrument (loss) gain	(2,781)	1,529	(7,300)	(1,701)
Total revenue	\$ 21,786	\$ 19,083	\$ 34,645	\$ 29,924

Second quarter oil and gas revenue increased by \$7.0 million or 40% to \$24.6 million in 2008 from the second quarter of 2007, as a result of a slight volume increase and a 39% increase in average prices. The Company experienced significant increases in natural gas liquids ("NGL") revenues as a result of new liquid rich production in both the Ricinus and Harmattan areas. Second quarter 2008 total revenue increased by \$2.7 million or 14% from the same period in 2007 for the reasons mentioned above, partially offset by an increase in the unrealized financial instrument loss of \$4.3 million.

For the six months ending June 30, 2008 oil and gas revenue increased by \$10.3 million or 33% due to a 9% increase in production as well as a 21% increase in average prices.

Production

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
<u>Area (boe/d)</u>				
Deep Basin	1,362	1,713	1,393	1,270
West Central Alberta	1,904	1,397	1,570	1,283
Southern Alberta	1,009	1,122	1,059	1,142
Other Areas	10	9	11	12
	<u>4,285</u>	<u>4,241</u>	<u>4,033</u>	<u>3,707</u>
<u>Product</u>				
Natural gas (mcf/d)	19,957	21,108	19,510	18,945
Natural gas liquids (bbls/d)	851	513	694	402
Oil (bbls/d)	108	210	88	147
Total (boe/d)	<u>4,285</u>	<u>4,241</u>	<u>4,033</u>	<u>3,707</u>

Production for the second quarter of the year averaged 4,285 boe per day, an increase of 13% over the first quarter and 1% over the same period of 2007. Production growth was mainly attributable to the West Central Alberta area due to a property acquisition in the Ricinus area and drilling success in both Harmattan and Ricinus. Production in the Deep Basin was lower in the quarter due to natural declines and facility downtime in the Wapiti area partially offset by new production in Kakwa.

ProspEx's overall production mix for the second quarter of 2008 was 78% natural gas with the remaining 22% being NGLs and oil. On a year to date basis, production was 81% natural gas and 19% NGLs and oil. NGLs and oil volumes have increased in the current year due to the liquid rich production brought on in the Harmattan and Ricinus areas.

Commodity Pricing

ProspEx Average Prices	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
<u>Natural gas (\$/mcf)</u>				
Sales price	\$ 10.25	\$ 7.29	\$ 9.11	\$ 7.48
Realized (loss) gain on financial instrument	(0.78)	0.02	(0.37)	0.22
Average realized natural gas price	<u>9.47</u>	<u>7.31</u>	<u>8.74</u>	<u>7.70</u>
Oil (\$/bbl)	126.37	65.22	114.49	63.66
NGL (\$/bbl)	79.09	48.47	71.88	48.48
Average realized price (\$/boe)	<u>63.00</u>	<u>45.48</u>	<u>57.14</u>	<u>47.14</u>
Unrealized financial instrument (loss) gain (\$/boe)	(7.13)	3.96	(9.94)	(2.53)
Total average price (\$/boe)	<u>\$ 55.87</u>	<u>\$ 49.44</u>	<u>\$ 47.20</u>	<u>\$ 44.61</u>
<u>Benchmark pricing</u>				
AECO C Spot (\$/mcf)	\$ 10.22	\$ 7.07	\$ 9.06	\$ 7.24
Edmonton Par – light oil (\$/bbl)	\$ 126.07	\$ 71.93	\$ 111.79	\$ 69.51

Average natural gas sales prices increased 41% to \$10.25 per mcf in the second quarter of 2008, compared to \$7.29 per mcf in the second quarter of 2007. During the second quarter of 2008, AECO C daily spot prices for natural gas increased by 45% compared to the second quarter of 2007 and the AECO monthly index for the same period increased 27%.

Realized natural gas prices for the second quarter of 2008 averaged \$9.47 per mcf, an increase of 30% from \$7.31 per mcf realized in the second quarter of 2007. For the six months ending June 30, 2008 the realized natural gas price increased 14% to \$8.74 per mcf compared to \$7.70 per mcf for the same period of 2007. Overall 2008 realized natural gas prices have increased reflecting the improvements in the commodity markets for 2008.

Oil prices received for the second quarter of 2008 were \$126.37 per barrel ("bbl"). This is a 94% increase from the \$65.22 per bbl received in the second quarter of 2007. For the six months ending June 30, 2008, the oil price received was \$114.49 per bbl, an increase of 80% from the same period of 2007.

The price realized for NGLs in the second quarter of 2008 was \$79.09 per bbl, an increase of 63% from \$48.47 per bbl in the second quarter of 2007. On a year to date basis, the NGL price as of June 30, 2008 was \$71.88 per bbl which is an increase of 48% over June 30, 2007. NGL prices did not reflect the same percentage increases as seen with the oil benchmark pricing due to an increase in the proportion of ethane in the Company's overall NGL mix. Ethane prices tend to track natural gas pricing as opposed to oil prices.

Financial Instruments

In an effort to mitigate the effects of volatile commodity prices and ensure cash flow to fund its exploration and development programs, ProspEx enters into financial instruments such as forwards, futures, swaps and costless collars. For the quarter ended June 30, 2008, the Company's risk management program resulted in a net realized loss of \$1.4 million and a loss of \$1.3 million for the first half of 2008, compared to a \$0.1 million gain and a \$0.8 million gain for the same periods in 2007.

The fair values of unsettled financial instruments are recorded as a current asset or liability with the change in the fair value recorded as an unrealized gain or loss in the statements of earnings. As a result, changes in the fair value of financial instruments due to fluctuating forward natural gas prices and the purchase or expiration of financial contracts can lead to volatility in net earnings for the period. The financial instruments open as of June 30, 2008 are described in detail in the financial instruments, risk management and capital management strategy note to the consolidated financial statements (note 5). The fair value of open financial instruments at June 30, 2008 was a liability of \$7.1 million compared to an asset of \$1.4 million at June 30, 2007. The impact of the changes in the fair values of open financial instruments was a loss of \$2.8 million for the quarter ended June 30, 2008 and a loss of \$7.3 million for the first six months of the year. This compares to a gain of \$1.5 million for the second quarter of 2007 and a loss of \$1.7 million for the first six months of 2007.

Royalty Expenses

(\$000's)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Crown	\$ 2,862	\$ 768	\$ 5,528	\$ 3,114
Freehold and gross overriding	<u>1,806</u>	<u>765</u>	<u>2,090</u>	<u>1,226</u>
Total Royalties	<u>\$ 4,668</u>	<u>\$ 1,533</u>	<u>\$ 7,618</u>	<u>\$ 4,340</u>
\$ per boe	\$ 11.97	\$ 3.97	\$ 10.38	\$ 6.47
As a percentage of oil and gas revenue	<u>19%</u>	9%	<u>18%</u>	14%

In the second quarter of 2008, royalties totaled \$4.7 million or 19% of revenue compared to last year's \$1.5 million or 9% of revenue. During the first six months of 2008 royalties totaled \$7.6 million or 18% of revenue compared to \$4.3 million or 14% of revenue for the same period of 2007. The rate in 2007 was low due to a \$1.2 million capital cost deduction adjustment that was not duplicated in 2008. The Company's 2008 royalty rate is expected to be higher

than 2007 as a result of the shift in the production profile from the lower royalty rate wells in Medallion to higher royalty rate wells in West Central Alberta and the Deep Basin.

ProspEx is required to pay the Province of Alberta and other royalty owners for the right to produce minerals owned by them. Such royalty payments are subject to change and any changes may have an adverse impact on the profitability of a project.

On October 25, 2007, the Government of Alberta unveiled a new framework to calculate the royalties payable to it for conventional oil, natural gas and bitumen that are based on, among other things, price, production and depth of wells. This framework has a proposed effective date of January 1, 2009, however many material details of the revised royalty structure have yet to be finalized.

On April 10, 2008, the Government of Alberta introduced two new five year deep resource programs to address concerns over the development of deep oil & gas reserves commencing January 1, 2009. These programs consist of a sliding scale of royalty credits according to depth.

Operating Costs

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating costs (\$000's)	\$ 3,274	\$ 3,034	\$ 6,774	\$ 5,137
Operating costs (\$/boe)	\$ 8.39	\$ 7.86	\$ 9.23	\$ 7.66

Operating costs for the second quarter were \$3.3 million or \$8.39 per boe. In comparison to the prior year operating costs have risen from \$3.0 million or \$7.86 per boe, but in comparison to the first quarter of 2008 are lower than the \$3.5 million or \$10.17 per boe. Overall operating costs are trending upwards as the Company's growing production profile is shifting towards producing areas that attract higher operating costs which include processing fees. Operating costs for the second quarter were lower than the first quarter of 2008 as a result of higher than usual operating costs incurred in the first quarter of the year as the Company incurred additional spending required to integrate newly acquired properties that it purchased in the quarter, the cost to address operational issues at Medallion, increased costs at Salter and costs incurred to accommodate production growth.

Operating costs for the first half of the year were \$6.8 million or \$9.23 per boe compared to \$5.1 million or \$7.66 per boe for the first half of 2007, reflecting the comments above.

Transportation Expenses

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Transportation expenses (\$000's)	\$ 389	\$ 389	\$ 721	\$ 684
Transportation expenses (\$/boe)	\$ 1.00	\$ 1.01	\$ 0.98	\$ 1.02

Transportation expense per boe for the three and six months ended June 30, 2008 is consistent with the comparable periods of 2007.

General and Administrative Expenses

(\$000's)	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Gross general and administrative	\$ 1,685	\$ 1,732	\$ 3,620	\$ 3,242
Recoveries	(202)	(192)	(470)	(547)
Capitalized expenses	(697)	(718)	(1,495)	(1,234)
Net general and administrative expenses	\$ 786	\$ 822	\$ 1,655	\$ 1,461
Net general and administrative expenses (\$/boe)	\$ 2.02	\$ 2.13	\$ 2.25	\$ 2.18

Gross general and administrative costs remained relatively flat during the second quarter of 2007 and 2008. For the first six months of 2008 gross general and administrative costs increased by \$0.4 million in the six months ended June 30, 2008 compared to the same period in 2007, due to higher salary expenses in the current year.

Interest and Bank Charges

Interest and bank charges of \$0.5 million in the second quarter and \$1.0 million year to date in 2008 were essentially unchanged from the prior year amounts of \$0.6 million and \$1.0 million, as average debt levels have remained consistent over the past year.

Depletion, Depreciation and Accretion

	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Depletion, depreciation and accretion (\$000's)	\$ 8,685	\$ 9,078	\$ 16,060	\$ 15,875
Depletion, depreciation and accretion (\$/boe)	\$ 22.27	\$ 23.52	\$ 21.88	\$ 23.66

Depletion, depreciation and accretion expense per boe in the second quarter and first half of 2008 was \$22.27 per boe and \$21.88 per boe respectively, which is a decrease from the comparable period in 2007 of \$23.52 per boe and \$23.66 per boe respectively. The reductions over the comparable periods in 2007 are as a result of the Company adding proven reserves at a lower cost than the Company's historical average.

Stock-Based Compensation

Stock-based compensation expenses are down slightly for the three and six months ended June 30, 2008 from \$0.3 million and \$0.5 million respectively in 2007, to \$0.2 million and \$0.4 million respectively in 2008. Costs are down as the initial grant of stock options and special performance units in 2004 has been fully recognized.

Income Taxes

In the second quarter of 2008, the Company's future income tax expense was in line with the same period in 2007 at \$1.0 million. For the six months ending June 30, 2008 future income tax expense totaled \$0.2 million, down from \$0.5 million in June of 2007.

During the first quarter of 2008, the renouncement of flow-through shares resulted in an increase of future tax liability of \$2.2 million (2007 - \$4.5 million).

Estimated tax pools as at June 30:

(\$000's)	2008	2007
Canadian development expense	\$ 33,042	\$ 30,578
Canadian exploration expense	27,581	29,354
Canadian oil & gas property expense	34,606	30,156
Undepreciated capital cost	46,296	46,718
Other	5,169	4,799
	\$ 146,694	\$ 141,605

ProspEx has committed to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by the end of 2008. The Company estimates that \$7.8 million of this commitment has been expended to June 30, 2008.

Capital Expenditures

Capital expenditures excluding the property disposition of \$5.4 million, were \$8.6 million during the second quarter of 2008, compared to expenditures of \$7.8 million in the second quarter of 2007. Details of these expenditures for the period ended June 30, were as follows:

(\$000's)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Drilling and completions	\$ 2,094	\$ 1,552	\$ 12,145	\$ 10,869
Facilities	1,908	3,801	6,620	9,732
Land and lease	1,354	1,369	2,913	3,557
Seismic	2,562	311	2,826	1,015
Capitalized G&A	<u>697</u>	<u>718</u>	<u>1,494</u>	<u>1,234</u>
Exploration & development capital expenditures	8,615	7,751	25,998	26,407
Net property acquisitions (dispositions)	(5,448)	-	6,050	-
Other capital assets	99	34	159	108
Total capital expenditures	\$ 3,266	\$ 7,785	\$ 32,207	\$ 26,515

Of the \$8.6 million invested in exploration and development capital expenditures, \$2.0 million was spent in the Deep Basin, \$1.8 million in West Central Alberta, \$0.8 million in Southern Alberta, \$2.3 million in other areas and \$1.7 million on corporate items.

In the first half of 2008, \$12.1 million was spent to drill and complete seven (3.8 net) wells with an 89% net success rate. No wells were rig released in the second quarter of 2008 as the usual spring break-up conditions prevented access to drilling locations for the quarter.

The Company has participated in \$6.1 million of acquisition and disposition activity during the first half of the year. During the first quarter of 2008 the Company acquired certain properties in the Ricinus area of Alberta for \$11.5 million after closing adjustments. These properties consist of 16 (11.9 net) wells with net production at acquisition of approximately 360 boe per day. In the second quarter of 2008 the Company sold certain non-operated properties in the Granum area for net proceeds of \$5.4 million after closing adjustments. These properties consisted of 5 (1.0 net) producing wells with net production at disposition of approximately 110 boe per day.

Liquidity & Capital Resources

At June 30, 2008, ProspEx had the following resources available to fund its capital expenditure program.

(\$000's)	
Working capital deficiency, excluding financial instrument gains/losses and related tax	\$ (6,709)
Long-term debt	(36,515)
Bank facilities available	65,000
Total capital resources available	\$ 21,776

ProspEx expects that it will be able to fund its remaining 2008 capital program from operating cash flow and capital resources noted above.

On July 22, 2008, one of ProspEx's natural gas liquids purchasers announced that it had filed for creditor protection. ProspEx has exposure of approximately \$25,000 with this counterparty.

Bank Debt

At June 30, 2008 the Company had a \$65.0 million credit facility with a Canadian chartered bank. The facility is available by way of Canadian prime and US base rate loans, LIBOR advances, bankers' acceptances and letters of credit. Canadian prime rate loans, US base rate loans, and LIBOR advances bear interest at Canadian prime, US base rate or LIBOR, as applicable, plus a margin dependant upon the Company's debt/cash flow ratio as calculated in the previous quarter. Stamping fees for bankers' acceptances are based on a rate adjusted over the term to maturity plus a margin as described above. The credit facility is fully revolving until June 30, 2009 and may be extended at the mutual agreement of ProspEx and its lender for an additional year. If the credit facility is not extended, a balloon payment is required on July 1, 2010. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

Share Capital

As at June 30, 2008, ProspEx had 57,199,448 common shares (2007 – 53,955,551), 2,201,983 warrants (2007 – 2,792,218), and 5,035,553 options (2007 – 4,520,917) issued and outstanding. Each warrant and option, upon exercise, entitles the holder to one common share.

As at July 31, 2008, ProspEx had 57,199,448 common shares, 2,201,983 warrants, and 5,035,553 options issued and outstanding.

Subsequent event

On July 23, 2008, the Company acquired certain properties in the Ricinus area of Alberta. These properties consist of 13 (1.2 net) producing wells, with current net production of approximately 60 boe per day and 400 net acres of undeveloped land. The consideration paid by the Company was \$3.35 million subject to normal closing adjustments.

Contractual Obligations

The Company has committed to certain payments over the next five years as follows:

Payments due (\$000's)	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ -	-	36,515	-	-	\$ -
Building lease	192	1,122	1,189	1,229	1,243	1,346
Drilling rig contract	2,929	161	-	-	-	-
Process fees	252	400	300	47	-	-
Transportation	491	579	78	-	-	-
Other	5	8	2	-	-	-
Total	\$ 3,869	2,270	38,084	1,276	1,243	\$ 1,346

ProspEx has committed to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by December 31, 2008. The Company estimates that \$7.8 million of this commitment has been expended to June 30, 2008.

Off-Balance Sheet Arrangements

The Company has not entered into any off-Balance Sheet transactions.

Summary of Quarterly Results

The following table summarizes the quarterly operating statistics of the Company.

	2008			2007			2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial (\$000's, except per share amounts)								
Oil and gas revenue	24,567	17,378	15,906	16,004	17,554	14,071	13,536	14,071
Net earnings (loss)	2,261	(2,110)	(180)	(1,352)	2,235	(1,794)	2,143	440
Per share - basic	0.04	(0.04)	0.00	(0.03)	0.04	(0.03)	0.04	0.01
- diluted	0.04	(0.04)	0.00	(0.03)	0.04	(0.03)	0.04	0.01
Average Daily Production								
Oil (bbls/d)	108	68	125	82	210	83	184	67
NGL (bbls/d)	851	536	515	548	513	290	276	515
Natural Gas (mcf/d)	<u>19,957</u>	<u>19,064</u>	<u>19,690</u>	<u>21,743</u>	<u>21,108</u>	<u>16,757</u>	<u>16,221</u>	<u>18,335</u>
Total (boe/d)	4,285	3,781	3,922	4,254	4,241	3,166	3,164	3,639
Operating Netbacks (\$/boe)								
Price ⁽¹⁾	63.00	50.50	44.09	40.89	45.48	49.38	46.50	42.03
Royalties	(11.97)	(8.57)	(5.41)	(7.79)	(3.97)	(9.85)	(7.16)	(8.46)
Transportation	(1.00)	(0.96)	(0.86)	(0.89)	(1.01)	(1.03)	(0.96)	(0.98)
Operating Cost	<u>(8.39)</u>	<u>(10.17)</u>	<u>(8.06)</u>	<u>(8.42)</u>	<u>(7.86)</u>	<u>(7.38)</u>	<u>(7.39)</u>	<u>(8.21)</u>
Operating Netback	41.64	30.80	29.76	23.79	32.64	31.12	30.99	24.38

⁽¹⁾ Price does not include unrealized financial instrument gain or loss.

Revenue and net earnings are affected by production volumes, operating netback, taxation rates, the Company's risk management program and depletion charges which are the result of the Company's success in adding new proven oil and natural gas reserves.

Overall production volume trends are the result of exploration and drilling success, however quarterly volatility is impacted by the seasonality of the industry as well as facility or pipeline restrictions and/or maintenance.

With respect to operating netbacks, the average price received has increased as worldwide commodity prices have risen over the past two years. Operating costs have increased due to the growth in the proportion of production from higher cost areas such as the Deep Basin and West Central Alberta.

NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted and Recent Pronouncements

Financial Instruments - Effective January 1, 2008 the Company adopted the new accounting standards for disclosure required under CICA Handbook Section 3862 "Financial Instruments – Disclosures", which applies to both recognized and unrecognized financial instruments. These disclosures, which include the nature and extent of risks arising from financial instruments, are included in note 5 of the unaudited financial statements of the Company for the second quarter of 2008 (the "Second Quarter Financial Statements").

Capital Disclosures - Effective January 1, 2008, ProspEx adopted the new requirements of the CICA for disclosure of the Company's objectives, policies and processes for managing capital (Section 1535) as discussed in note 5 of the Second Quarter Financial Statements.

Internal Control Reporting – On July 11, 2008, Canadian Securities Administrators issued a staff notice relative to the replacement of the current multilateral instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The notice accepts the replacement proposal, whereby CEO and CFO annual certification will be required to include an evaluation of the effectiveness of internal controls over financial reporting ("ICFR") as of the end of the financial year and disclosure conclusions about the effectiveness of ICFR in the annual MD&A. This will apply for the year ended December 31, 2008. The Company is continuing with its evaluation of ICFR to ensure it meets the criteria for December 31, 2008 certification.

Convergence with International Reporting Standards – On February 13, 2008, the Canadian Accounting Standards Board confirmed that the effective date for the convergence of Canadian Generally Accepted Accounting Standards for publicly accountable entities to International Financial Reporting Standards will be January 1, 2011. On April 8, 2008, an exposure draft was released soliciting comment from the Canadian financial community on the applicability and appropriateness in a Canadian context, of the proposed standards, with a comment deadline of July 31, 2008. The Company has not yet developed an IFRS changeover plan, therefore the impact on its financial position or results of operations has not yet been determined.

DISCLOSURE CONTROLS AND POLICIES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of June 30, 2008, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiary, is made known to them by others within those entities. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO of the Company are able to certify the design of the Company's internal controls over financial reporting as required under Multilateral Instrument 52-109 of the Canadian Securities Administration with no significant weaknesses in design of these internal controls that require commenting on in the MD&A.

For the second quarter of 2008 there were no changes to the design of internal controls over financial reporting.

ADVISORIES

Within the MD&A references are made to terms commonly used in the oil and gas industry. "Cash flow" is not defined by GAAP in Canada and is referred to as a non-GAAP measures. For the purposes thereof, "cash flow" is defined as cash flow from operations before the change in operating non-cash working capital. The MD&A contains the term "cash flow" which should not be considered an alternative to, or more meaningful than "cash flow from operations" as determined in accordance with GAAP. The Company considers cash flow to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund capital projects and to repay debt. Cash flow 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. Cash flow per share is calculated using the same weighted average number of common shares for the period as used in calculating the net earnings per share calculation.

Boe amounts have been calculated using a conversion rate of six mcf of gas to one barrel of oil. The term boe may be misleading if used in isolation. A boe conversion ratio of one barrel of oil to six mcf of gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

"Operating netbacks" are calculated by subtracting transportation costs, royalties payable, and operating costs from the average price received during the period.

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during the year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

Forward-looking Information

Certain information regarding ProspEx including, without limitation, management's assessment of future plans and operations, constitutes forward-looking information or statements under applicable securities law and necessarily involve assumptions regarding factors and risks that could cause actual results to vary materially, including, without limitation, assumptions and risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, royalty rates, imprecision of reserve estimates, environmental risks, competition, incorrect assessment of the value of acquisitions or dispositions, failure to realize the anticipated benefits of acquisitions and ability to access sufficient capital from internal and external sources.

The reader is cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonable by ProspEx at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the foregoing list of assumptions, factors and risks is not exhaustive. Additional information on the foregoing assumptions, risks and other factors that could affect ProspEx's operations or financial results are included in ProspEx's public disclosure

documents on file with Canadian securities regulatory authorities. In particular see the Risk Factors and Industry Conditions sections of ProspEx's most recent Annual Information Form. ProspEx's reports may be accessed through the SEDAR website (www.sedar.com), at ProspEx's website (www.psx.ca) or by contacting the Company directly. Consequently, there is no representation by ProspEx that actual results achieved will be the same in whole or in part as those set out in the forward-looking information.

Furthermore, the forward-looking information and statements contained in this MD&A are made as of the date of this MD&A, and ProspEx does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking information and statements contained herein are expressly qualified by this cautionary statement.

ProspEx Resources Ltd.
Consolidated Balance Sheets
(unaudited)

(Stated in thousands of dollars)	June 30, 2008	December 31, 2007
Assets		
Current assets		
Accounts receivable	\$ 11,653	12,900
Prepaid expenses	889	988
Future income tax asset (note 3)	2,090	-
Unrealized financial instrument gain	-	214
	<u>14,632</u>	<u>14,102</u>
Property, plant and equipment, net	178,049	161,663
	<u>\$ 192,681</u>	<u>175,765</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 19,251	22,761
Unrealized financial instrument loss	7,086	-
Future income tax liability (note 3)	-	69
	<u>26,337</u>	<u>22,830</u>
Long term debt (note 2)	36,515	28,846
Asset retirement obligation	5,975	5,201
Future income tax liability (note 3)	7,884	3,145
	<u>76,711</u>	<u>60,022</u>
Shareholders' Equity		
Share capital (note 4)	91,775	92,204
Contributed surplus (note 4)	6,119	5,614
Retained earnings	18,076	17,925
Total shareholders' equity	<u>115,970</u>	<u>115,743</u>
	<u>\$ 192,681</u>	<u>175,765</u>

Subsequent event (note 8)
See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Earnings, Comprehensive Earnings and Retained Earnings
For the periods ended
(unaudited)

(Stated in thousands of dollars, except per share amounts)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Revenue				
Oil and gas	\$ 24,567	17,554	41,945	31,625
Unrealized financial instrument gain (loss)	(2,781)	1,529	(7,300)	(1,701)
Royalties	(4,668)	(1,533)	(7,618)	(4,340)
	<u>17,118</u>	<u>17,550</u>	<u>27,027</u>	<u>25,584</u>
Expenses				
Depletion, depreciation and accretion	8,685	9,078	16,060	15,875
Operating	3,274	3,034	6,774	5,137
Transportation	389	389	721	684
General and administrative	786	822	1,655	1,461
Interest and bank charges	515	559	1,024	956
Stock-based compensation	236	286	431	521
	<u>13,885</u>	<u>14,168</u>	<u>26,665</u>	<u>24,634</u>
Earnings before taxes	<u>3,233</u>	<u>3,382</u>	<u>362</u>	<u>950</u>
Income Taxes (note 3)				
Future	972	1,147	211	509
	<u>972</u>	<u>1,147</u>	<u>211</u>	<u>509</u>
Net earnings and comprehensive earnings for the period	<u>2,261</u>	<u>2,235</u>	<u>151</u>	<u>441</u>
Retained earnings, beginning of period	<u>15,815</u>	<u>17,222</u>	<u>17,925</u>	<u>19,016</u>
Retained earnings, end of period	<u>\$ 18,076</u>	<u>19,457</u>	<u>18,076</u>	<u>19,457</u>
Net earnings per share				
Basic	\$ 0.04	0.04	0.00	0.01
Diluted	<u>\$ 0.04</u>	<u>0.04</u>	<u>0.00</u>	<u>0.01</u>

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Cash Flows
For the periods ended
(unaudited)

(Stated in thousands of dollars)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Operations				
Net earnings for the period	\$ 2,261	2,235	151	441
Items not involving cash				
Depletion, depreciation and accretion	8,685	9,078	16,060	15,875
Stock-based compensation	236	286	431	521
Future income taxes	972	1,147	211	509
Unrealized financial instrument (gain) loss	2,781	(1,529)	7,300	1,701
Asset retirement expenditures	(9)	(28)	(45)	(325)
	<u>14,926</u>	<u>11,189</u>	<u>24,108</u>	<u>18,722</u>
Changes in non-cash working capital	<u>(2,227)</u>	<u>(3,744)</u>	<u>(302)</u>	<u>(9,913)</u>
	<u>12,699</u>	<u>7,445</u>	<u>23,806</u>	<u>8,809</u>
Financing				
Issuance of common shares	912	271	1,418	310
(Decrease) Increase in long-term debt	(2,910)	2,972	7,669	25,757
	<u>(1,998)</u>	<u>3,243</u>	<u>9,087</u>	<u>26,067</u>
Investments				
Exploration and development expenditures	(8,615)	(7,751)	(25,998)	(26,407)
Property (acquisition) disposition	5,448	-	(6,050)	-
Expenditures on asset held for resale	-	937	-	937
Deposit on property acquisition	-	-	1,175	-
Other capital expenditures	(99)	(34)	(159)	(108)
	<u>(3,266)</u>	<u>(6,848)</u>	<u>(31,032)</u>	<u>(25,578)</u>
Changes in non-cash working capital	<u>(7,435)</u>	<u>(3,840)</u>	<u>(1,861)</u>	<u>(9,298)</u>
	<u>(10,701)</u>	<u>(10,688)</u>	<u>(32,893)</u>	<u>(34,876)</u>
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the three months and six months ended June 30, 2008
(unaudited)

The interim unaudited consolidated financial statements of ProspEx Resources Ltd. (the "Company" and/or "ProspEx") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company is engaged in the acquisition, exploration, development and production of oil and natural gas in Canada.

The interim unaudited consolidated financial statements have been prepared by management following the same accounting policies and methods of computation as the audited consolidated financial statements for the period ended December 31, 2007 except as described below. Preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates. The disclosures included below are incremental to those included with the annual consolidated financial statements except as disclosed below. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2007.

1. CHANGES IN ACCOUNTING POLICIES

(a) Financial Instruments

On January 1, 2008 the Company adopted the new accounting standard for financial instruments – disclosures, which applies to both recognized and unrecognized financial instruments. The standards require that disclosure be made of the nature and extent of risks arising from financial instruments. This adoption did not have any impact on the results of operations or net financial position, as it is a disclosure related standard.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

The Company enters into derivative financial instruments to manage its exposure to volatility in commodity prices. These instruments are not used for trading or other speculative purposes.

Commodity price financial instruments that do not qualify as hedges, or have not been designated as such, are recorded at fair value on inception. Realized gains or losses on these financial instruments are reflected as adjustments to the related revenue when the gain or loss is realized; unrealized gains and losses on these instruments are recognized as adjustments to the related revenue at the end of each reporting period. The estimated fair value of these instruments is based on quoted market prices, or if quotes are not available, third-party market indications and forecasts are used.

Derivative instruments that qualify as hedges, and have been designated as hedges, are not recognized in the financial statements on inception. Gains or losses on commodity price financial instruments designated as hedges are reflected as adjustments to the related revenue when the gain or loss is realized.

(b) Capital Disclosures

On January 1, 2008, the Company adopted the new accounting standard for disclosure of the Company's objectives, policies and processes for managing capital. This new adoption did not have any impact on the results of operations or net financial position, as it is a disclosure related standard.

2. LONG TERM DEBT

At June 30, 2008 the Company had a \$65.0 million credit facility with a Canadian chartered bank. The facility is available by way of Canadian prime and US base rate loans, LIBOR advances, bankers' acceptances and letters of credit. Canadian prime rate loans, US base rate loans, and LIBOR advances bear interest at Canadian prime, US base rate or LIBOR, as applicable, plus a margin dependant upon the Company's debt/cash flow ratio as calculated in the previous quarter. Stamping fees for bankers' acceptances are based on a rate adjusted over the term to maturity plus a margin as described above. The credit facility is fully revolving until June 30, 2009 and may be extended at the mutual agreement of ProspEx and its lender for an additional year. If the credit facility is not extended, a balloon payment is required on July 1, 2010. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

3. FUTURE INCOME TAXES

The provision for future income taxes differs from the amount computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

(\$000's)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Earnings before taxes	\$ 3,233	\$ 3,382	\$ 362	\$ 950
Rate (%)	29.50%	32.12%	29.50%	32.12%
Computed expected provision for future income taxes	954	1,086	107	305
Increase (decrease) in taxes resulting from:				
Stock-based compensation expensed	70	92	127	167
Effect of change in tax rate	(195)	(20)	(168)	(105)
Other	143	(11)	145	142
Income tax expense	\$ 972	\$ 1,147	\$ 211	\$ 509

The components of the current future income tax asset and liability are as follows:

(\$000's)	June 30, 2008	December 31, 2007
Financial instrument loss	\$ 2,090	\$ -
Financial instrument gain	-	(69)
Future income tax asset (liability)	\$ 2,090	\$ (69)

The components of the long term future income tax liability are as follows:

(\$000's)	June 30, 2008	December 31, 2007
Property, plant and equipment	\$ (8,329)	\$ (3,744)
Asset retirement obligation	519	509
Share issue costs	426	590
	(7,384)	(2,645)
Valuation allowance	(500)	(500)
Future income tax liability	\$ (7,884)	\$ (3,145)

At June 30, 2008, the Company had estimated tax pools available to reduce future taxable income of \$146.7 million (June 30, 2007 – \$141.6 million). ProspEx has committed to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by December 31, 2008. The Company estimates that \$7.8 million of this commitment has been expended to June 30, 2008.

Capitalized stock based compensation resulted in an increase to future tax liabilities of \$0.2 million during both the six months ended June 30, 2008 and 2007 (three months ended June 30, 2008 and 2007 - \$0.1 million).

During the first quarter of 2008, the renouncement of flow-through shares resulted in an increase of future tax liability of \$2.2 million.

4. SHARE CAPITAL

(a) Common Shares & Common Share Performance Warrants Issued

	June 30, 2008		June 30, 2007	
	Number of Shares/Warrants (000's)	Amount (\$000's)	Number of Shares/Warrants (000's)	Amount (\$000's)
Common shares				
Balance at the beginning of the year	56,453	\$ 90,543	53,790	\$ 85,681
Flow-through shares tax adjustment	-	(2,218)	-	(4,461)
Issued on exercise of stock options	232	746	72	243
Exercise of stock options	-	357	-	114
Shares issued on exercise of warrants	514	1,034	94	188
Issue costs, net of future tax reduction of \$14 (2007 - \$20)	-	(34)	-	(44)
Warrants cancelled	-	-	-	13
Balance at the end of the period	57,199	\$ 90,428	53,956	\$ 81,734
Common share performance warrants				
Balance at the beginning of the period	2,716	\$ 1,661	2,908	\$ 1,778
Exercised	(514)	(314)	(94)	(58)
Cancelled	-	-	(22)	(13)
Balance at the end of the period	2,202	\$ 1,347	2,792	\$ 1,707
Share Capital at the end of the period		\$ 91,775		\$ 83,441

All outstanding performance warrants entitle the holder to acquire a common share at a price of \$1.40 and expire on October 1, 2009.

(b) Contributed Surplus

(000's)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Balance at the beginning of the period	\$ 6,004	\$ 4,818	\$ 5,614	\$ 4,348
Stock-based compensation	472	572	862	1,042
Exercise of stock options	(357)	(114)	(357)	(114)
Balance at the end of the period	\$ 6,119	\$ 5,276	\$ 6,119	\$ 5,276

(c) Stock Options

Changes in outstanding stock options are summarized below:

	June 30, 2008		June 30, 2007	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding at beginning of year	4,656	\$ 3.62	3,354	\$ 3.49
Granted	612	3.32	1,300	4.16
Exercised	(232)	3.22	(72)	3.38
Cancelled	-	-	(61)	3.60
Outstanding at the end of the period	5,036	\$ 3.60	4,521	\$ 3.68

The following table summarizes stock options outstanding and exercisable at June 30, 2008:

Range of exercise price	Options outstanding			Options exercisable		
	Number of outstanding at period end (000s)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at period end (000s)	Weighted average exercise price	
\$ 2.95 - \$ 3.45	2,410	2.21	\$ 3.22	1,751	\$ 3.23	
\$ 3.48 - \$ 3.95	1,721	3.22	\$ 3.79	740	\$ 3.84	
\$ 4.00 - \$ 4.46	905	3.73	\$ 4.27	302	\$ 4.27	
	5,036	2.83	\$ 3.60	2,793	\$ 3.50	

No options were granted during the second quarter of 2008. The fair value of options granted during the second quarter of 2007 was \$0.9 million, during the first six months of 2008 was \$0.8 million (2007 - \$2.2 million). The fair value is determined using the Black-Scholes option pricing model with the following weighted average assumptions for grants as follows:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Risk free interest rate	n/a	4.0%	3.2%	4.0%
Expected life	n/a	5 years	5 years	5 years
Expected volatility	n/a	48%	47%	48%
Expected dividend yield	n/a	Nil	Nil	Nil

The estimated fair values of the options and the special performance units are being amortized to expense over the vesting period. During the three months ended June 30, 2008, a total of \$0.2 million (2007 - \$0.3 million) of stock based compensation was recorded against income and \$0.2 million (2007 - \$0.3 million) was capitalized. During the six months ended June 30, 2008 a total of \$0.4 million (2007 - \$0.5 million) of stock based compensation was recorded against income and \$0.4 million (2007 - \$0.5 million) was capitalized.

(d) Per Share Amounts

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Weighted average common shares basic	57,081,774	53,911,553	56,813,545	53,859,424
Dilutive securities:				
Stock options	247,737	492,317	200,826	433,367
Performance warrants	1,379,670	1,888,528	1,385,890	1,880,767
Special performance units	-	267,945	-	255,333
Diluted	58,709,181	56,560,343	58,400,261	56,428,891

For the three months ended June 30, 2008, a total of 3,133,000 (June 30, 2007 – 2,136,500) options were excluded from the diluted calculations as they were anti-dilutive. The six month year to date equivalent number of options excluded due to their anti-dilutive impact was 3,208,750 (2007 – 2,109,000)

5. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY

Overview

The Company has exposure to a number of risks from its use of financial instruments including:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit Risk

Credit risk relates to the Company's receivables from joint venture partners and petroleum and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk. The Company generally grants unsecured credit but routinely assesses the financial strength of its partners and marketers.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to two petroleum and natural gas marketers therefore is subject to concentration risk. To date the Company has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining joint venturer approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venturers; however in certain circumstances, it may elect to cash call a joint venturer in advance of the work.

As at June 30, 2008 the Company's receivables consisted of \$2.1 million (December 31, 2007 - \$5.3 million) from joint venturers, \$7.8 million (December 31, 2007 - \$5.1 million) of receivables from petroleum and natural gas marketers and \$1.8 million (December 31, 2007 - \$2.5 million) of other receivables.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at June 30, 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended June 30, 2008.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in note 2. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

The following are the contractual maturities of financial liabilities and associated interest payments as at June 30, 2008:

Financial Liability (\$000's)	< 1 year	1 - 2 years	2 - 5 years	Thereafter
Accounts payable and accrued liabilities	\$ 19,251	-	-	-
Derivative contracts	7,086	-	-	-
Long term debt	-	36,515	-	-
Total	\$ 26,337	36,515	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The Company utilizes both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollars. Given that changes in exchange rate have an indirect influence, the impact of changing exchange rates can not be accurately quantified. The Company had no forward exchange rate contracts in place as at or during the three months ended June 30, 2008.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial derivative sales contracts. The Company's contracts in place as of June 30, 2008 are as follows:

<u>Type</u>	<u>Amount (GJ/d)</u>	<u>Term</u>	<u>Price (\$/GJ) at AECO</u>	<u>Type</u>
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.50 - \$6.75	Physical
Collar	1,000	April 1, 2008 – October 31, 2008	\$6.50 - \$6.90	Physical
Collar	1,000	April 1, 2008 – October 31, 2008	\$6.50 - \$7.13	Financial
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.50 - \$7.45	Financial
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.50 - \$7.75	Financial
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.75 - \$7.62	Financial
Collar	2,000	November 1, 2008 – March 31, 2009	\$7.00 - \$8.80	Financial
Collar	2,000	November 1, 2008 – March 31, 2009	\$7.00 - \$9.15	Financial
Put	2,000	November 1, 2008 – March 31, 2009	\$10.00	Financial

The contracts in place during the three months ended June 30, 2008 resulted in an unrealized loss of \$2.8 million (2007 - \$1.5 million gain) and a realized loss of \$1.4 million (2007 - \$0.1 million gain). During the first half of the year ended June 30, 2008 the contracts in place resulted in an unrealized loss of \$7.3 million (2007 - \$1.7 million) and a realized loss of \$1.3 million (2007 - \$0.8 million gain).

With respect to commodity prices, during the three and six month period ended June 30, 2008, a one dollar increase in the price per GJ of natural gas relevant only to the Company's production dedicated to derivative financial instruments would have resulted in a net earnings decrease of \$0.1 million and an increase of \$0.1 million respectively. A \$1.00 decrease in the price per GJ of natural gas on the same production would have increased net earnings for the three and six months ended June 30, 2008 by \$0.1 million. This excludes any impact relating to unrealized financial instrument gains/losses.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its credit facility which bears a floating rate of interest. The Company had no interest rate swaps or financial contracts in place as at or during the three months ended June 30, 2008. For the three and six months ended June 30, 2008, a difference in the interest rate of 1% would change net earnings in both periods by an estimated \$0.1 million, assuming all other variables are constant.

Capital Management Strategy

The Company's policy on capital management is to maintain a prudent capital structure to allow the Company to fund future development. The Company considers its capital structure to include shareholders' equity, bank debt, and working capital.

(\$000's)	June 30, 2008	December 31, 2007
Shareholders' equity	\$ 115,970	\$ 115,743
Bank debt	36,515	28,846
Working capital deficiency excluding unrealized financial instrument gain or losses and associated future tax assets or liabilities	6,709	8,873

The Company manages its capital programs in order to maintain a prudent capital structure as changes in economic conditions occur. The Company may and has from time to time issued shares and adjusted spending to manage current or projected operating cash flows and debt levels.

The Company monitors its capital base using the ratio of net debt to annualized operating cash flow. This ratio is calculated as net debt, as defined as long term debt less working capital (or plus working capital deficiency) excluding unrealized financial instrument gain (loss) and associated future tax assets (liabilities); divided by annualized cash flow from operations before changes in non-cash working capital (based on the most recent operating quarter). The Company's guideline is to maintain a ratio of approximately 1.0 to 1.0, not exceeding 2.0 to 1.0. This ratio will fluctuate depending on fluctuations of the commodity and business cycles. The Company prepares annual capital expenditure budgets which are updated periodically to monitor this ratio. The annual budget is approved by the Board of Directors with updates reviewed by the Board throughout the year.

As at June 30, 2008 the Company's ratio of net debt to annualized operating cash flow was 0.7 to 1.0 (June 30, 2007 – 0.9 to 1.0), and compares to the ratio of 1.0 to 1.0 for the year ended December 31, 2007. The decrease during the second quarter is consistent with the reduction of debt and improved cash flow in the second quarter.

The Company's share capital is not subject to any external restrictions. The bank debt facility has no restrictions other than the limitation of borrowing under the facility on an annual basis. As at June 30, 2008, the Company is in compliance with all flow-through share expenditure requirements as well as all bank facility requirements.

There have been no changes to the Company's capital management strategy during the quarter ended June 30, 2008.

6. ADDITIONAL DISCLOSURES

(a) Interest and Taxes Paid

Net cash interest paid during the quarter was \$0.7 million (2007 - \$0.9 million). Cash taxes paid during the period was \$nil (2007 - \$nil). On a year to date basis, net cash interest paid to June 30, 2008 was \$1.1 million (2007 - \$1.4 million). Year to date cash taxes paid to June 30, 2008 was \$nil (2007 - \$nil).

(b) Asset Retirement Obligation

For the six month period ended June 30, 2008, Asset Retirement Obligation increased by \$0.6 million for liabilities incurred (quarter ended June 30, 2008 - \$0.5 million), with a corresponding increase to Property, Plant and Equipment.

7. COMMITMENTS

The Company has committed to certain future payments as follows:

Payments due (\$000's)	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ -	-	36,515	-	-	\$ -
Building lease	192	1,122	1,189	1,229	1,243	1,346
Drilling rig contract	2,929	161	-	-	-	-
Process fees	252	400	300	47	-	-
Transportation	491	579	78	-	-	-
Other	5	8	2	-	-	-
Total	\$ 3,869	2,270	38,084	1,276	1,243	\$ 1,346

ProspEx has committed to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by December 31, 2008. The Company estimates that \$7.8 million of this commitment has been expended to June 30, 2008.

8. SUBSEQUENT EVENT

On July 23, 2008, the Company acquired certain properties in the Ricinus area of Alberta. These properties consist of 13 (1.2 net) producing wells, with current net production of approximately 60 boe per day and 400 net acres of undeveloped land. The consideration paid by the Company was \$3.35 million subject to normal closing adjustments.

9. RECLASSIFICATION

Certain amounts disclosed for prior years have been reclassified to conform to current period presentation.

Contact Information

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