



ProspEx Announces Record Production in the Second Quarter of 2007

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

CALGARY, August 2, 2007 / CNW / - ProspEx Resources Ltd. ("ProspEx" or the "Company") is pleased to report its financial and operating results for the three and six months ended June 30, 2007.

"ProspEx achieved record production in the second quarter, and we are well positioned to meet our targets for 2007. We look forward to the results of our summer drilling program, which is currently underway in both West Central and Southern Alberta" said John Rossall, President and Chief Executive Officer. "The Company continues to maintain a strong financial position, with net debt to annualized cash flow of 0.8 years".

Second Quarter Highlights

- Second quarter production of 4,241 barrels of oil equivalent ("boe") per day exceeded guidance and represents an increase of 34% compared to the first quarter of 2007 production of 3,166 boe per day. These higher volumes were due to the commissioning of new facilities in Harmattan, and from production associated with discoveries in the Deep Basin and Granum.
- ProspEx's credit facility has been expanded to \$60 million from the prior level of \$50 million as a result of a semi-annual review of the Company's asset base. Net debt at June 30, 2007 was \$38.0 million, equivalent to 0.8 years annualized cash flow. ProspEx has an active hedging program in place, with 9,000 GJ/d of production hedged with floor prices of \$7.00/GJ at AECO until October 31, 2007. This hedging program, relatively low debt levels and the expansion of the Company's credit facility provides ProspEx with financial flexibility in an environment of softening natural gas prices.
- Summer drilling is planned for each of the Company's three core areas, with drilling currently underway in West Central and Southern Alberta. Drilling is scheduled to begin in the Deep Basin later in the third quarter.
- Capital expenditures on exploration and development totaled \$7.8 million for the quarter, with total year to date spending of \$26.4 million. In the second quarter, the focus of the Company's capital program was the construction and commissioning of facilities to bring wells drilled during the winter onstream, which accounted for \$3.8 million of the capital spending. In the second quarter, the Company participated in the drilling of two (0.4 net) successful wells, both in the Granum area in Southern Alberta.
- Operating netbacks of \$32.64 per boe increased versus the prior quarter netback of \$31.12 per boe, as an 11% decrease in realized natural gas prices was more than offset by a reduction in royalty expense.
- Cash flow increased 49% to \$11.2 million from \$7.5 million in the first quarter of 2007 driven by increased production. Year to date cash flow is \$18.7 million.

OPERATIONAL REVIEW

<u>Production (boe/d)</u>	<u>Q2 2007</u>	<u>Q1 2007</u>	<u>Q4 2006</u>
West Central	1,397	1,167	1,108
Deep Basin	1,713	823	913
Southern Alberta	1,122	1,162	1,131
Other	<u>9</u>	<u>14</u>	<u>12</u>
Total	4,241	3,166	3,164

Second quarter production of 4,241 boe per day increased 34% over the first quarter of 2007. At Harmattan, new facilities were commissioned at the Cardium W Pool in mid-May, and production averaged 900 boe per day net to ProspEx over the balance of the quarter. Two (1.5 net) wells were drilled in the W Pool in the first quarter, and tested at gross flow rates of 600 and 900 boe per day. These wells are scheduled for tie in during the third quarter.

New production from a first quarter exploration discovery was also brought onstream at Granum in Southern Alberta in late May, with 140 boe per day of production coming from two (0.4 net) wells. Two additional (0.4 net) development wells were successfully drilled in the Granum pool during the second quarter. These wells have since been completed and tested at gross flow rates of 2 to 3 million cubic feet ("mmcf") per day from each well.

In the Deep Basin, ProspEx brought a previously announced exploration discovery onstream in late March that produced at a stable, facilities constrained gross flow rate of over 16 mmcf per day (approximately 800 net boe per day) over the second quarter.

Capital expenditures for exploration and development totaled \$7.8 million for the quarter or \$26.4 million for 2007 year to date. Operational activity in the second quarter was focused on construction and commissioning of new facilities to bring production from the winter drilling program onstream. In the second quarter, \$3.8 million was spent on facilities construction, mostly at Harmattan. Drilling activity was modest in the second quarter due to the usual "spring break-up" period, with ProspEx participating in two wells in the Granum area as discussed above.

The Company's summer drilling program is underway. In West Central Alberta, a partner operated well has been cased in the Garrington area and is awaiting completion. Company operated drilling has commenced with a step-out well to the southeast of the Harmattan Cardium W Pool. ProspEx plans to operate one drilling rig in West Central Alberta for the balance of the year. A Company operated drilling program is also underway at Medallion in Southern Alberta, where a 10 well drilling program is planned for the summer. In Granum, one well (0.2 net) has been drilled and tested an aggregate gross flow rate of 3.4 mmcf per day from two zones. In the Deep Basin, drilling is expected to begin later in the third quarter in the Kakwa area.

2007 Guidance

ProspEx's 2007 annual average production guidance remains unchanged at 4,000 to 4,200 boe per day. Operating costs are expected to average \$7.75 per boe, an increase of \$0.50 from the prior guidance of \$7.25 per boe due to processing fees associated with the prolific Deep Basin discovery and start-up costs at the new Harmattan facility. Royalties are expected to average 17% of revenue, a significant decrease from prior guidance of 24%, as additional capital cost recovery credits received as a result of capital expenditures incurred to build production facilities in 2006 and 2007 have lowered the effective royalty rate. Expensed G&A costs are expected to be \$2.00 per boe, slightly higher than prior guidance of \$1.75 per boe, as the Company has added staff to facilitate the future growth of the Company. In aggregate, these changes are expected to result in an increase in netback of approximately \$2.00 per boe.

2007 Guidance Summary

	Revised Guidance	Previous Guidance
Annual Average Production	4,000 to 4,200 boe/d	4,000 to 4,200 boe/d
Capital expenditures	\$52 million	\$52 million
Operating costs	\$7.75/boe	\$7.25/boe
Royalties	17% of revenues	24% of revenues
Expensed G&A	\$2.00/boe	\$1.75/boe

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 regarding ProspEx in this press release including 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, imprecision of reserve estimates, environmental risks, competition, incorrect assessment of the value of acquisitions, 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 reasonably accurate 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 factors is not exhaustive. Additional information on these and other factors that could affect ProspEx's operations or financial results are included in ProspEx's reports on file with Canadian securities regulatory authorities. In particular see ProspEx's MD&A and the Risk Factors and Industry Conditions sections of ProspEx's 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 statements contained in this news release are made as of the date of this news release, 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. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Boe's 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.

ProspEx Resources Ltd.
Consolidated Highlights
For the periods ended
(unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
FINANCIAL (\$000's)				
Oil and gas revenue	17,165	12,375	30,941	23,374
Net earnings	2,235	868	441	2,497
Cash flow ⁽¹⁾	11,189	7,300	18,722	13,053
Total assets	171,361	141,265	171,361	141,265
Net debt ⁽¹⁾	37,956	33,176	37,956	33,176
Net earnings per share (\$ per share)				
basic	0.04	0.02	0.01	0.05
diluted	0.04	0.02	0.01	0.05
Cash flow per share (\$ per share) ⁽¹⁾				
basic	0.21	0.15	0.35	0.26
diluted	0.20	0.14	0.33	0.25
Weighted average common shares (000's)				
Basic	53,912	49,705	53,859	49,324
diluted	56,560	52,373	56,428	51,799
PRODUCTION VOLUMES				
Natural gas (mcf/d)	21,108	17,948	18,945	15,930
Natural gas liquids (bbls/d)	513	287	402	250
Crude oil (bbls/d)	210	96	147	62
Total (boe/d) (6:1)	4,241	3,375	3,707	2,967
SALES PRICES				
Natural gas (\$/mcf)	7.15	6.35	7.53	6.98
Natural gas liquids (\$/bbl)	47.46	56.53	47.53	56.78
Crude oil (\$/bbl)	63.91	59.72	62.19	60.53
Total (\$/boe)	44.47	40.30	46.12	43.52
NETBACKS (\$/boe)				
Price ⁽²⁾	44.47	40.30	46.12	43.52
Royalties	(3.97)	(7.12)	(6.47)	(7.65)
Operating costs	(7.86)	(5.68)	(7.66)	(5.97)
General and administrative	(2.13)	(2.13)	(2.18)	(2.18)
Total	30.51	25.37	29.81	27.72
CAPITAL (\$000's)				
Drilling, completions and seismic	1,863	2,598	11,884	22,255
Facilities	3,801	2,518	9,732	8,008
Land and lease	1,369	987	3,557	4,236
Capitalized general & administrative	718	588	1,234	957
Office and computer assets	34	-	108	186
Total	7,785	6,691	26,515	35,642

(1) Cash flow and net debt do not have a standardized measure prescribed by Canadian generally accepted accounting principles and therefore may not be comparable with calculations with similar measures for other companies. Net debt is defined as long-term debt plus total current assets less total current liabilities and cash flow is defined as cash flow from operations before changes in non-cash working capital to analyze operating results.

(2) Price does not include unrealized financial instrument gain/loss.

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the historical financial and operating results of ProspEx Resources Ltd. ("ProspEx" and/or the "Company") as well as a prospective view of the Company's activities. The MD&A for the three and six months ended June 30, 2007, was prepared as at August 2, 2007 and should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2006 together with the notes related thereto.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Readers are referred to advisories detailing "Non-GAAP Measures" and "Forward-looking Statements" contained in the back of this MD&A. Additional information relating to ProspEx, including its Annual Information Form, can be found at www.sedar.com.

HIGHLIGHTS OF THE SECOND QUARTER OF 2007

The second quarter of 2007 was highlighted by increased production volumes as a result of a successful winter drilling program and construction of new facilities. Cash flow was accordingly higher than both the prior quarter and the second quarter of 2006 despite lower average natural gas prices.

During the quarter, the Company's capital program was focused on the construction and start up of new facilities in its two growth areas, West Central Alberta and the Deep Basin. Drilling activity was reduced from the prior quarter as a result of spring break-up, with two (0.4 net) successful wells drilled in the quarter.

The Company realized a natural gas price of \$7.15 per thousand cubic feet ("mcf") for the quarter, a 12% gain compared to the second quarter of 2006 realized price of \$6.35 per mcf and an 11% decrease over the previous quarter. The outlook for natural gas prices has deteriorated as concerns over abundant North American natural gas supplies has lowered future gas prices into 2008.

Cash flow for the quarter rose 53% over the prior year to \$11.2 million, driven by higher production volumes. The Company showed net earnings for the quarter of \$2.2 million. Net earnings for the quarter were driven by increased revenues due to higher production levels and mark to market gains on financial instruments, offset by higher depletion, depreciation and accretion charges and operating costs compared to the prior year.

The Company continues to maintain a strong balance sheet with net debt at quarter end of \$38.0 million. This is lower than the net debt of \$44.1 million at the end of the prior quarter, as free cash flow exceeded capital spending over the "spring break-up" period during the second quarter.

RESULTS OF OPERATIONS

Revenue

Operating revenue for the second quarter was \$17.2 million, a 25% increase over first quarter revenue of \$13.8 million and a 39% increase over revenues of \$12.4 million during the second quarter of 2006. These higher revenues were primarily driven by an increase in production volumes compared to last year and the prior quarter.

Production

Production for the second quarter of the year averaged 4,241 barrels of oil equivalent ("boe") per day, an increase of 34% over the previous quarter's average of 3,166 boe per day and 26% higher than second quarter of 2006 production of 3,375 boe per day. Overall production grew in the second quarter as the Company tied-in the majority of its wells from the winter drilling season, with new production coming from West Central Alberta, Southern Alberta

and the Deep Basin. Natural gas volumes increased 26% over the first quarter to average 21.1 mmcf per day and oil and NGL volumes increased 94% to 723 boe per day.

Average Selling Price

Realized gas prices for the second quarter of 2007 averaged \$7.15 per mcf, less than the \$8.02 per mcf realized in the first quarter of 2007, but more than the \$6.35 per mcf price realized in the second quarter of 2006. Overall natural gas prices continue to be low due to concerns over high North American natural gas storage levels. During the quarter, the Company realized \$0.4 million in financial instrument gains as 9,000 gigajoules ("GJ's") per day were subject to natural gas collars with floors at \$7.00 per GJ.

Financial Instruments

ProspEx utilizes financial instruments to reduce the price volatility associated with the natural gas markets. This reduces the uncertainty of operating cash flows and allows the Company to better plan and execute its future capital programs.

At June 30, 2007, ProspEx had natural gas contracts for 9,000 GJs per day from April 1, 2007 to October 31, 2007, with a floor price of \$7.00 per GJ and ceilings ranging from \$8.05 to \$9.07 per GJ at AECO. The fair value of these financial instruments at June 30, 2007 was an unrealized gain of \$1.4 million.

Subsequent to quarter-end, the Company entered into a fixed price contract for 2,000 GJ's per day from September 1, 2007 to October 31, 2007 at \$5.40 per GJ at AECO.

Royalty Expense

Royalties totaled \$1.5 million or 9% of revenue for the quarter ended June 30, 2007 versus last year's \$2.2 million and 18% of revenue. Royalty expense decreased significantly due to an additional \$1.2 million of capital cost recovery credits received as a result of capital expenditures incurred to build production facilities. ProspEx's royalty expense remains slightly lower than industry average, due to the benefit of capital cost recovery credits and lower freehold royalty rates.

For 2007, royalty rates are expected to average approximately 17% of revenues, compared to prior guidance of 24% of revenues.

Operating Costs

Operating costs for the second quarter of the year totaled \$3.0 million compared to last year's costs of \$1.7 million. On a per unit basis, operating costs are up 38% to \$7.86 per boe compared to \$5.68 per boe last year. This increase in operating costs reflects production growth in areas with higher operating costs, including processing fees associated with a prolific Deep Basin well as well as additional start-up costs incurred for the Harmattan oil facilities.

Operating costs for 2007 are anticipated to average \$7.75 per boe, compared to prior guidance of \$7.25 per boe.

General and Administrative Expenses

Total general and administration costs ("G&A") for the quarter were \$1.5 million compared to last year's total of \$1.2 million. G&A costs increased in the second quarter compared to last year as the Company has increased its overall staffing levels to manage growth in the Company. On a unit basis expensed G&A costs were \$2.13 per boe, equivalent to the second quarter of 2006. ProspEx follows the full-cost method of accounting for its petroleum and natural gas operations with approximately 50% of exploration and development related G&A costs capitalized leaving \$0.8 million expensed.

G&A costs are expected to average \$2.00 per boe for 2007, an increase compared to prior guidance of \$1.75 per boe due to increased staff levels.

Interest and Bank Charges

Interest and bank charges for the second quarter were \$0.6 million compared to \$0.5 million last year. This increase in costs reflects the greater utilization of the Company's credit facility in the second quarter of 2007 compared to 2006.

Depletion, Depreciation and Accretion

Depletion, depreciation, and accretion was \$9.1 million or \$23.52 per boe for the second quarter of the year. This is \$3.2 million higher than last year's \$5.9 million and 22% higher on a per boe basis of \$19.23. Depletion, depreciation and accretion has increased compared to last year due to increased production coupled with a higher cost environment which resulted in increased depletion, depreciation and accretion rates.

Stock-Based Compensation

Stock-based compensation for the second quarter totaled \$0.5 million, compared to last year's \$0.6 million consistent with the prior year. Stock based compensation is accounted for using the fair value method of accounting. Under the fair-value method of accounting, this compensation expense is recorded in the earnings statement over the vesting period and approximately 50% of these costs are capitalized, resulting in a net compensation expense of \$0.3 million for the second quarter compared to \$0.3 million last year.

Income Taxes

Future income taxes were \$1.1 million for the quarter, compared to \$0.9 million last year, as higher operating revenues created higher future income taxes for the quarter. ProspEx has approximately \$141.6 million of income tax pools at June 30, 2007 and does not anticipate being cash taxable in the near to mid term.

Net Earnings and Cash Flow

Net earnings were \$2.2 million in the second quarter, representing a 158% increase over the prior year of \$0.9 million. This increase over last year is due to a 39% increase in operating revenues and a \$1.5 million unrealized gain on financial instruments offset by an increase in the depletion, depreciation and accretion expense and operating expenses.

Cash flow for the second quarter of the year increased by 53% from \$7.3 million in the prior year to \$11.2 million. This increase in cash flow as discussed before can be largely attributed to the increase in production levels.

For the second quarter of 2007, diluted cash flow per share was \$0.20 compared to \$0.14 last year, consistent with the increase in overall cash flow.

Capital Expenditures

Capital expenditures were \$7.8 million during the second quarter and \$26.5 million for the first six months of 2007. Details of these expenditures are as follows:

(\$000's)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Drilling, completions & seismic	\$ 1,863	\$ 2,598	\$ 11,884	\$ 22,255
Facilities	3,801	2,518	9,732	8,008
Land and lease	1,369	987	3,557	4,236
Capitalized G&A	718	588	1,234	957
Office and computer assets	34	-	108	186
Total Capital Expenditures	\$ 7,785	\$ 6,691	\$ 26,515	\$ 35,642

Capital expenditures of \$7.8 million for the quarter were lower than the prior quarter of \$18.7 million, due to the onset of the annual "spring break-up" period in the second quarter. Expenditures in the second quarter of this year were marginally greater than last year's expenditures of \$6.7 million. During the quarter the Company focused on facilities and tie-in projects to bring new production onstream, which accounted for approximately half of the capital expenditures in the quarter.

The full year exploration & development capital spending budget for 2007 is \$52 million.

Liquidity & Capital Resources

As at June 30, 2007, ProspEx had the following cash resources available to fund its capital expenditure program.

	(\$000's)
Working capital	\$ 4,568
Long-term debt	(42,523)
Bank facilities available	50,000
Total resources available	\$ 12,045

Accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Accounts receivables of \$2.5 million from joint venture partners are past due at June 30, 2007. Due to the deterioration of North American gas price fundamentals, industry access to capital markets may become increasing difficult raising the credit risk on accounts receivable. The Company has not recorded an allowance for doubtful accounts at June 30, 2007.

ProspEx expects that it will be able to fund its remaining 2007 capital program from cash flow from operations and existing capital resources.

Bank Debt

At June 30, 2007, the Company had a total credit facility of \$50 million. The facility is available by way of Canadian and US dollar prime rate based loans, LIBOR advances, bankers' acceptances and letters of credit. The credit facility is fully revolving until June 30, 2008 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, 2009. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

Subsequent to the quarter-end the Company has expanded its credit facility by an additional \$10 million bringing the total credit facility to \$60 million.

Share Capital

As at June 30, 2007, ProspEx had 53,955,551 common shares, 2,792,218 warrants, 435,994 special performance units and 4,520,917 options issued and outstanding.

As at August 2, 2007, ProspEx had 53,955,551 common shares, 2,792,218 warrants, 435,994 special performance units and 4,595,917 options issued and outstanding.

Commitments

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

Payments due (\$000's)	2007	2008	2009	2010	2011	Thereafter
Long-term debt	-	-	42,523	-	-	-
Building lease	176	353	29	-	-	-
Drilling rig contract	2,629	3,924	-	-	-	-
Process fees	252	400	300	225	36	-
Seismic purchase	110	-	-	-	-	-
Other	3	4	-	-	-	-
Total	3,170	4,681	42,852	225	36	-

ProspEx has met its commitment to incur \$14.6 million in qualifying expenditures related to the flow-through share financings in 2007.

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.

	2005		Q1	2006			2007	
	Q3	Q4		Q2	Q3	Q4	Q1	Q2
Financial (\$000's, except per share amounts)								
Oil and gas revenue	9,103	12,496	10,999	12,375	13,743	13,255	13,766	17,165
Net earnings (loss)	6,325	3,850	1,629	868	440	2,143	(1,794)	2,235
Per share - basic	0.13	0.08	0.03	0.02	0.01	0.04	(0.03)	0.04
- diluted	0.13	0.08	0.03	0.02	0.01	0.04	(0.03)	0.04
Average Daily Production								
Oil (bbls/d)	32	28	28	96	67	184	83	210
NGL (bbls/d)	96	91	212	287	515	276	290	513
Natural Gas (mcf/d)	11,013	11,651	13,890	17,948	18,335	16,221	16,757	21,108
Total (boe/d)	1,963	2,062	2,555	3,375	3,639	3,164	3,166	4,241

Overall Netbacks (\$/boe)

Price ⁽¹⁾	50.40	65.89	47.83	40.30	41.05	45.54	48.35	44.47
Royalties	(8.59)	(10.15)	(8.36)	(7.12)	(8.46)	(7.16)	(9.85)	(3.97)
Operating Cost	<u>(5.14)</u>	<u>(6.77)</u>	<u>(6.34)</u>	<u>(5.68)</u>	<u>(8.21)</u>	<u>(7.39)</u>	<u>(7.38)</u>	<u>(7.86)</u>
Operating Netback	<u>36.67</u>	<u>48.97</u>	<u>33.13</u>	<u>27.50</u>	<u>24.38</u>	<u>30.99</u>	<u>31.12</u>	<u>32.64</u>

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

NEW ACCOUNTING PRONOUNCEMENTS**Accounting Standards Adopted**

On January 1, 2007 the Company adopted the new accounting standards for financial instrument-recognition and measurement financial instruments-presentation and disclosures, hedging and comprehensive income.

The standards require that financial assets and liabilities be carried at fair value on the balance sheet, except for loans and receivables, securities designated as held-to-maturity and non-trading financial liabilities which are carried at amortized cost unless designated as held-for-trading.

The Company uses derivative financial instruments to manage its exposure to volatility in commodity prices. Prior to January 1, 2007 and to date, the derivative financial instruments used have not been designated as hedges; they were recorded at fair value at inception and unrealized gains or losses are reflected in earnings (loss).

Prior to adoption of the new standards, physical receipt and delivery contracts were not within the scope of the definition of a financial instrument. On adoption of the new standards, the Company elected to account for its commodity sales contracts and other non-financial contracts as non-financial derivatives.

The new standards require a statement of comprehensive income comprised of net earnings plus other comprehensive income. The Company does not have any other comprehensive income to report on the adoption of the new standards.

The adoption of these new standards on January 1, 2007 did not have a material impact on the reported results of operations or net financial position of the Company.

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 Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded, based on their evaluation as of June 30, 2007, 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 Chief Executive Officer and Chief Financial Officer 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.

For the second quarter of 2007 there were no changes to the design of internal controls over financial reporting.

Non - GAAP Measures

Within the MD&A references are made to terms commonly used in the oil and gas industry. The following terms are not defined by Generally Accepted Accounting Principles ("GAAP") in Canada and are referred to as non-GAAP measures.

1. Cash flow is defined as cash flow from operations before the change in 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.
2. Barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet ("mcf") of gas to one barrel of oil. Boe's 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.
3. Netbacks equal total revenue less royalties, operating costs and general and administrative costs on a boe basis. Total boes are calculated by multiplying the daily production by the number of days in the period.
4. Net debt is calculated using long-term debt plus total current assets less total current liabilities.

Forward-looking statements

Certain information regarding ProspEx including 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, imprecision of reserve estimates, environmental risks, competition, incorrect assessment of the value of acquisitions, 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 reasonably accurate 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 factors is not exhaustive. Additional information on these and other factors that could affect ProspEx's operations or financial results are included in ProspEx's reports on file with Canadian securities regulatory authorities. In particular see the Risk Factors and Industry Conditions sections of ProspEx's 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 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. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

ProspEx Resources Ltd.
Consolidated Balance Sheets

(Stated in thousands of dollars)
(unaudited)

	June 30, <u>2007</u>	December 31, <u>2006</u>
Assets		
Current assets		
Accounts receivable	\$ 14,466	13,220
Prepaid expenses	1,068	746
Unrealized financial instrument gain	1,380	3,081
	<u>16,914</u>	<u>17,047</u>
Property, plant and equipment, net	154,447	142,649
Asset held for resale (note 2)	-	937
Future income tax asset (note 3)	-	1,103
	<u>171,361</u>	<u>161,736</u>
	<u>\$ 171,361</u>	<u>161,736</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,347	29,990
Long term debt (note 4)	42,523	16,766
Asset retirement obligation	4,241	4,157
Future income tax liability (note 3)	4,076	-
	<u>63,187</u>	<u>50,913</u>
Total liabilities	<u>63,187</u>	<u>50,913</u>
Shareholders' Equity		
Share capital (note 5)	83,441	87,459
Contributed surplus	5,276	4,348
Retained earnings	19,457	19,016
	<u>108,174</u>	<u>110,823</u>
	<u>\$ 171,361</u>	<u>161,736</u>

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings
(unaudited)

(Stated in thousands of dollars, except per share amounts)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenue				
Oil and gas	\$ 17,165	12,375	30,941	23,374
Unrealized financial instrument gain (loss)	1,529	663	(1,701)	809
Royalties	(1,533)	(2,185)	(4,340)	(4,108)
	<u>17,161</u>	<u>10,853</u>	<u>24,900</u>	<u>20,075</u>
Expenses				
Depletion, depreciation and accretion	9,078	5,905	15,875	10,194
Operating	3,034	1,745	5,137	3,203
General and administrative	822	652	1,461	1,170
Interest and bank charges	559	471	956	658
Stock-based compensation	286	293	521	545
	<u>13,779</u>	<u>9,066</u>	<u>23,950</u>	<u>15,770</u>
Earnings before income taxes	<u>3,382</u>	<u>1,787</u>	<u>950</u>	<u>4,305</u>
Income Tax (note 3)				
Current	-	(20)	-	-
Future income taxes	1,147	939	509	1,808
	<u>1,147</u>	<u>919</u>	<u>509</u>	<u>1,808</u>
Net earnings and comprehensive income	<u>2,235</u>	<u>868</u>	<u>441</u>	<u>2,497</u>
Retained earnings, beginning of period	<u>17,222</u>	<u>15,565</u>	<u>19,016</u>	<u>13,936</u>
Retained earnings, end of period	<u>\$ 19,457</u>	<u>16,433</u>	<u>19,457</u>	<u>16,433</u>
Net earnings per share				
Basic	<u>\$ 0.04</u>	<u>0.02</u>	<u>0.01</u>	<u>0.05</u>
Diluted	<u>\$ 0.04</u>	<u>0.02</u>	<u>0.01</u>	<u>0.05</u>

See accompanying notes to consolidated financial statements.

ProspEx Resources Ltd.
Consolidated Statements of Cash Flow
(unaudited)

(Stated in thousands of dollars)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Operations				
Net earnings and comprehensive income	\$ 2,235	868	441	2,497
Items not involving cash				
Depletion, depreciation and accretion	9,078	5,905	15,875	10,194
Stock-based compensation	286	293	521	545
Unrealized financial instrument loss (gain)	(1,529)	(663)	1,701	(809)
Future income taxes	1,147	939	509	1,808
Asset retirement expenditures	(28)	(42)	(325)	(1,182)
	<u>11,189</u>	<u>7,300</u>	<u>18,722</u>	<u>13,053</u>
Changes in non-cash working capital	(3,744)	(4,249)	(9,912)	(10,855)
	<u>7,445</u>	<u>3,051</u>	<u>8,810</u>	<u>2,198</u>
Financing				
Issuance of shares	271	6,684	310	6,624
Increase in long-term debt	2,972	2,848	25,757	32,094
	<u>3,243</u>	<u>9,532</u>	<u>26,067</u>	<u>38,718</u>
Investments				
Exploration and development expenditures	(6,814)	(6,691)	(25,470)	(35,456)
Other capital assets	(34)	-	(108)	(186)
	<u>(6,848)</u>	<u>(6,691)</u>	<u>(25,578)</u>	<u>(35,642)</u>
Changes in non-cash working capital	(3,840)	(5,892)	(9,299)	(5,274)
	<u>(10,688)</u>	<u>(12,583)</u>	<u>(34,877)</u>	<u>(40,916)</u>
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	-	-	-

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006
(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 year ended December 31, 2006 except as disclosed below in note 1. 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. 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, 2006.

1. CHANGE IN ACCOUNTING POLICY

On January 1, 2007 the Company adopted the new accounting standards for financial instrument-recognition and measurement, financial instruments-presentation and disclosures, hedging and comprehensive income.

The standards require that financial assets and liabilities be carried at fair value on the balance sheet, except for loans and receivables, securities designated as held-to-maturity and non-trading financial liabilities which are carried at amortized cost unless designated as held-for-trading.

The Company uses derivative financial instruments to manage its exposure to volatility in commodity prices. Prior to January 1, 2007 and to date, the derivative financial instruments used have not been designated as hedges; they were recorded at fair value at inception and unrealized gains or losses are reflected in earnings (loss).

Prior to adoption of the new standards, physical receipt and delivery contracts were not within the scope of the definition of a financial instrument. On adoption of the new standards, the Company elected to account for its commodity sales contracts and other non-financial contracts as non-financial derivatives.

The new standards require a statement of comprehensive income comprised of net earnings plus other comprehensive income. The Company does not have any other comprehensive income to report on the adoption of the new standards.

The adoption of these new standards on January 1, 2007 did not have a material impact on the reported results of operations or net financial position of the Company.

2. ASSET HELD FOR RESALE

The Company had \$0.9 million of equipment assembled which it intended to resell. The Company no longer expects to sell this equipment, as it is expected that this equipment will be utilized in the Company's field operations.

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, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Earnings before taxes	\$ 3,382	\$ 1,787	\$ 950	\$ 4,305
Rate	32.12%	34.50%	32.12%	34.50%
Computed expected provision for future income taxes	1,086	617	305	1,485
Increase (decrease) in taxes resulting from:				
Non-deductible crown payments	-	200	-	331
Resource allowance	-	(225)	-	(442)
Stock-based compensation	92	196	167	376
Effect of change in tax rate	(20)	322	(105)	266
Other	(11)	(171)	142	(208)
	1,147	939	509	1,808
Capital taxes	-	(20)	-	-
Income tax expense	\$ 1,147	\$ 919	\$ 509	\$ 1,808

The components of the future income tax liability at June 30, 2007 are as follows:

(\$000's)	
Tax (liabilities) assets:	
Property, plant and equipment	\$ (4,285)
Asset retirement obligation	481
Share issue costs	604
Other	(376)
	(3,576)
Valuation allowance	(500)
Future income tax liability	\$ (4,076)

At June 30, 2007, the Company had estimated tax deductions available to reduce future taxable income of \$141.6 million (2006 – \$132.1 million).

4. LONG-TERM DEBT

At June 30, 2007 the Company had a \$50 million credit facility with a Canadian chartered bank. The facility is available by way of Canadian and US dollar prime rate based loans, LIBOR advances, bankers' acceptances and letters of credit. The credit facility is fully revolving until June 30, 2008 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, 2009. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets.

Subsequent to quarter end, the Company expanded its credit facility to \$60 million, all other terms remain the same.

5. SHARE CAPITAL

(a) Common Shares & Common Share Performance Warrants Issued

	June 30, 2007		June 30, 2006	
	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 period	53,790	\$85,682	48,932	\$64,283
Flow-through shares tax adjustment	-	(4,461)	-	(2,048)
Warrants cancelled	-	13	-	-
Shares issued for warrants	94	188	30	60
Options exercised	72	242	4	12
Adjustment for contributed surplus reclass - option	-	114	-	-
Issued for cash as private placement – May 5, 2006	-	-	1,220	7,015
Issue costs, net of future tax reduction	-	(44)	-	(279)
Balance at the end of the period	53,956	\$81,734	50,186	\$69,043
Common share performance warrants				
Balance at the beginning of the period	2,908	\$1,778	3,032	\$1,853
Exercised	(94)	(58)	(30)	(18)
Cancelled	(22)	(13)	-	-
Balance at the end of the period	2,792	\$1,707	3,002	\$1,835
Share Capital at end of period		\$83,441		\$70,878

(b) Stock Options and Special Performance Units

Changes in outstanding stock options during the period ended June 30 are summarized below:

	2007		2006	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding at beginning of the period	3,354	\$ 3.49	2,314	\$ 3.27
Granted	1,300	4.16	1,006	3.94
Exercised	(72)	3.38	(4)	3.22
Cancelled	(61)	3.60	-	-
Outstanding at the end of the period	4,521	\$3.68	3,316	\$ 3.47

The fair value of options granted during the six months of 2007 was \$2.2 million (2006 - \$1.6 million) using the Black-Scholes option pricing model with the following weighted average assumptions for grants as follows:

Risk free interest rate	4%
Expected life	5 years
Expected volatility	48%
Expected dividend yield	Nil

The estimated fair values of the options and the special performance units are being amortized to expense over the vesting period. \$0.5 million (2006 - \$0.5 million) of stock and unit-based compensation was recorded against income in 2007 and \$0.5 million (2006 - \$0.5 million) was capitalized.

There were no changes in the number of outstanding special performance units during the first six months of the year.

(c) Per Share Amounts

In computing diluted net earnings per share for the quarter ended June 30, 2007, 2,648,791 (2006 -2,668,144) common shares were added to the weighted average number of common shares outstanding of 53,911,553 (2006-49,705,095). A total of 2,136,500 (2006 - 1,223,000) options were excluded from the diluted calculations as they were not dilutive.

In computing diluted net earnings per share for the six months ended June 30, 2007, 2,569,467 (2006 - 2,475,522) common shares were added to the weighted average number of common shares outstanding of 53,859,424 (2006 - 49,323,675). A total of 2,136,500 (2006 - 1,223,000) options were excluded from the diluted calculations as they were not dilutive.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In addition to physical swap contracts, the Company uses derivative financial instruments to manage its exposure to volatility in commodity prices. These financial instruments are not used for trading or other speculative purposes. As all the derivative financial instruments entered into by the Company have not been formally designated as hedges, they are recorded at fair value at inception. Realized gains or losses on these physical and 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 financial instruments and physical contracts is based on quoted market prices, or if quotes are not available, third party market indications and forecasts are used. During the period ending June 30, 2007 a \$0.4 million (2006 - \$nil) gain was realized on physical and financial swap contracts. Financial instruments and physical contracts in place at June 30, 2007 are summarized below.

<u>Type</u>	<u>Amount (GJ/d)</u>	<u>Term</u>	<u>Price (\$/GJ)</u>	<u>Type</u>
Collar	2,000	April 1 - October 31, 2007	\$7.00 - \$8.05 at AECO	Financial
Collar	2,000	April 1 - October 31, 2007	\$7.00 - \$8.50 at AECO	Financial
Collar	2,000	April 1 - October 31, 2007	\$7.00 - \$9.07 at AECO	Physical
Collar	3,000	April 1 - October 31, 2007	\$7.00 - \$8.27 at AECO	Physical

Subsequent to the quarter the Company entered into the following financial instrument:

<u>Type</u>	<u>Amount (GJ/d)</u>	<u>Term</u>	<u>Price (\$/GJ)</u>	<u>Type</u>
Fixed Price	2,000	September 1 - October 31, 2007	\$5.40 at AECO	Financial

Accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Accounts receivables of \$2.5 million from joint venture partners are past due at June 30, 2007. Due to the deterioration of North American gas price fundamentals, industry access to capital markets may become increasing difficult raising the credit risk on accounts receivable. The Company has not recorded an allowance for doubtful accounts at June 30, 2007.

The Company is exposed to a floating rate of interest on its long-term debt. The Company is also exposed to foreign currency fluctuations as oil prices received are referenced to US dollar denominated prices and natural gas and natural gas liquids prices are influenced by US dollar denominated markets. The Company has no financial contracts in place at June 30, 2007 to manage the foreign currency and interest rate exposure.

The fair values of the financial instruments, including accounts receivable, accounts payable, accrued liabilities and bank loans approximate their carrying values.

7. ADDITIONAL DISCLOSURES

Net cash interest paid during the quarter was \$0.9 million (2006 - \$0.9 million interest received). Cash taxes paid during the period was \$nil (2006 – \$nil).

Contact Information

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