



## ProspEx Announces 2007 Third Quarter Results and Preliminary Assessment of New Alberta Royalty Framework

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

CALGARY, November 8, 2007 / CNW / - ProspEx Resources Ltd. ("ProspEx" or the "Company") announces its financial and operating results for the three and nine months ended September 30, 2007.

"ProspEx continues to achieve strong operational results despite a challenging business environment," said John Rossall, President and Chief Executive Officer. "We have completed a preliminary assessment of the impact of the new Alberta Royalty Framework proposed by the Government of Alberta on October 25, 2007. At market forward prices, the estimated impacts on ProspEx's royalty rates, cash flow and net asset value are expected to be relatively modest. While the impact on investment economics is forecasted to be mixed, ProspEx has a broad portfolio of investment opportunities and intends to focus its capital allocation towards projects with superior economic returns under the new royalty regime."

### Highlights

- Production for the third quarter was 4,254 barrels of oil equivalent ("boe") per day, in line with second quarter of 2007 production of 4,241 boe per day and an increase of 17% over third quarter 2006 production of 3,639 boe per day. The Company estimates that it currently has approximately 600 net boe per day of completed production awaiting tie-in in West Central Alberta.
- In the third quarter, the Company participated in the drilling of 24 gross (14.4 net) wells with a 97% net success rate. Highlights of the drilling program included two (1.6 net) Cardium wells in West Central Alberta that tested at gross rates of 350 and 600 boe per day, a Mannville completion (0.25 net) in West Central Alberta that tested at a gross rate of 400 boe per day and a well (0.2 net) drilled at Granum in Southern Alberta that tested at a gross rate of 600 boe per day. A 20 (12.1 net) well drilling program was also executed at Medallion in Southern Alberta.
- Drilling is currently underway at Garrington in West Central Alberta. An exploratory well on a new trend in Granum was cased in early November and is awaiting completion.
- Drilling has also commenced at the Company's "high impact" (higher risk/higher reward) prospect in Salter, with well results expected at year end.
- A public hearing, the final step in the regulatory process relating to the Company's "high impact" exploration prospect at Edson, was held in September. A decision with respect to this project is expected from the Alberta Energy and Utilities Board ("EUB") by year end.
- Operating netbacks of \$23.79 per boe were in line with the prior year.
- Third quarter cash flow was \$7.9 million, 9% greater than the same period last year. Year to date cash flow is \$26.6 million. A loss of \$1.4 million in net earnings was incurred in the period compared to net earnings of \$0.4 million in the prior year.
- Net debt at September 30, 2007 is \$43.3 million. The limit on ProspEx's existing credit facility is \$60 million.
- The Company estimates that its overall royalty rate will change from 19% to 23% at gas prices of \$7.00/GJ under Alberta's new royalty framework, assuming the current mix of individual well production rates and producing depths of the Company remain unchanged. This change in royalty rate is estimated to equate to a 6% reduction in operating netback.

- The Company's independent reserves engineers, GLJ Petroleum Consultants Ltd. ("GLJ"), have reassessed the value of the Company's Proved plus Probable reserves at December 31, 2006 assuming that the new royalty framework comes into effect on January 1, 2009. No other assumptions were varied for this evaluation which was run with GLJ (2007-01) pricing and showed that the estimated before tax value of the Company's Proved plus Probable reserves, discounted at 10%, increased by approximately 2% relative to the existing Alberta royalty system. These estimated values do not necessarily represent fair market value.

## OPERATIONAL REVIEW

<u>Production (boe/d)</u>	<u>Q3 2007</u>	<u>Q2 2007</u>	<u>Q1 2007</u>	<u>Q4 2006</u>	<u>Q3 2006</u>
West Central Alberta	1,466	1,397	1,167	1,108	1,534
Deep Basin	1,589	1,713	823	913	991
Southern Alberta	1,190	1,122	1,162	1,131	1,104
Other	<u>9</u>	<u>9</u>	<u>14</u>	<u>12</u>	<u>10</u>
Total	4,254	4,241	3,166	3,164	3,639

Production for the third quarter was 4,254 boe per day, an increase of 17% over third quarter 2006 production of 3,639 boe per day, and essentially unchanged from the second quarter of 2007 production of 4,241 boe per day. Third quarter production in each of the Company's core areas was relatively unchanged from second quarter 2007 levels. In the Deep Basin, a third party compressor failure in July resulted in lost production of approximately 120 boe per day averaged over the quarter.

In the third quarter, ProspEx participated in 24 (14.4 net) wells with a 97% net success rate. Three wells (2.1 net) were drilled in West Central Alberta. In Harmattan, the Company drilled a successful 100% working interest Cardium step-out well of the existing Cardium W Pool wells. In Ricinus, a Cardium development well (55% working interest) was also successful, with the first of two zones onstream in late October at a gross rate of 175 boe per day (100 boe per day net to ProspEx). The second zone in this well has yet to be completed. A Mannville well (25% interest) in West Central Alberta was also completed and tested at a gross rate of 400 boe per day. This well is currently being tied in. A West Central well in Willesden Green (50% working interest) was abandoned. An exploratory well (50% interest) targeting the Elkton formation is currently drilling in Garrington.

In Southern Alberta, the Company drilled 10 (9.6 net) operated wells at Medallion, in addition to participating in 10 (2.5 net) partner operated wells. All of the Medallion wells were cased and completion and tie-in is ongoing. In Granum, the Company participated in one (0.2 net) successful development well that flow tested at an aggregate rate of 600 (120 net) boe per day from two zones. In the fourth quarter, an exploration well (100% interest) drilled to evaluate a new trend was cased at Granum and is awaiting completion.

At Salter, a foothills well is currently being drilled pursuant to a farmout agreement with a larger industry partner. The drilling program for this well includes a horizontal leg approximately one kilometre long across the crest of a Mississippian structure defined by a producing vertical gas well. ProspEx will not pay for any portion of the drilling and completion of this well, but has retained a 40% interest in any production. Results of this well are expected around year end.

In September, the EUB held a public hearing with respect to the Company's Edson Wabamun drilling prospect. A decision with respect to this "high impact" exploration project is expected by year end, with drilling expected in the first quarter of 2008 pending a favourable regulatory decision.

## NEW ALBERTA ROYALTY FRAMEWORK

ProspEx has completed a preliminary evaluation of the impact of the new Alberta Royalty Framework proposed by the Alberta Government on October 25, 2007. Approximately 75% of the Company's current production is subject to Alberta Crown royalties, with the remainder subject to freehold royalty.

The table below shows the estimated changes to the Company's overall corporate average royalty rate under the new royalty framework at different gas prices. This calculation assumes that the current mix of individual well production rates and producing depths of the Company remain unchanged, and that wells drilled prior to January 2009 pay a depth dependent royalty.

AECO Gas Price (\$/GJ)	\$6.00	\$7.00	\$8.00
Old Corp. Avg. Royalty (%)	19%	19%	20%
New Corp. Avg. Royalty (%)	20%	23%	25%
Change in Netback (%)	(2.5)%	(5.8)%	(8.3)%

The Company's independent reserves engineers, GLJ Petroleum Consultants Ltd., have reassessed the value of the Company's Proved plus Probable reserves at December 31, 2006 (the Company's most recent fiscal year end) assuming that the new royalty framework comes into effect on January 1, 2009. No other assumptions were varied for this evaluation which was run with GLJ (2007-01) pricing and showed that the estimated before tax value of the Company's Proved plus Probable reserves, discounted at 10% increased by approximately 2% relative to the existing Alberta royalty system. These estimated values do not necessarily represent fair market value. For clarity, the assumptions regarding the new royalty framework include an assumption that the existing deep gas royalty program will terminate on January 1, 2009 but that all wells will receive the depth adjusted royalty effective January 1, 2009, regardless of when the wells were drilled.

ProspEx has also assessed the impact of the new Royalty Framework on its capital investment opportunities. In general, the Company estimates that, relative to the existing royalty regime, the new Royalty Framework has the following impacts on project economics:

- shallow gas drilling economics in Southern Alberta show modest improvement in return on capital under the new royalty framework;
- in West Central Alberta, the new royalty framework has a neutral to moderately negative impact on rate of return; and
- the new royalty framework has a moderately negative impact on rates of return of Deep Basin projects.

Reaction to the new royalty framework has tended to focus on the increased royalties to be levied on higher production rates. Many wells drilled in Western Canada tend to experience higher rates initially, but stabilize at lower rates and hence produce a substantial portion of their reserves at rates that will attract a lower royalty under the new royalty framework. Full cycle analysis shows that the benefit to be realized by lower royalties later in the producing life is material, and may actually enhance the economics of some drilling projects. In particular, the impact of the "depth adjustment" to royalties for wells producing from depths greater than 2,000 metres may have a pronounced positive effect on project economics.

Many important transitional and implementation details relating to the new royalty framework have yet to be released by the Alberta Government, and ProspEx looks forward to further clarity of these issues.

ProspEx has a broad portfolio of investment opportunities, and believes that significant opportunity will exist to pursue economically attractive projects under the new royalty framework. Capital allocation will be directed to those projects which the Company believes will deliver economic returns under the new royalty regime.

## **GUIDANCE**

Production at Harmattan was restricted over the third quarter due to third party gas processing constraints. The Company is negotiating alternative gas processing options to alleviate these constraints. ProspEx believes that these alternative options will result in an increase in Harmattan production by over 500 boe per day early in 2008. This additional production is expected to come from the tie-in of two recently drilled, 100% working interest wells, as well as the removal of constraints on production from the five (2.7 net) wells that are currently on production. In addition to restrictions at Harmattan, some capital spending was delayed due to wet weather in the Deep Basin and uncertainty surrounding the proposed changes to Alberta Crown Royalties. Production in the fourth quarter of 2007 is therefore expected to be approximately 4,000 to 4,100 boe per day. Accordingly, the Company is forecasting annual average production marginally less than the previously announced 4,000 to 4,200 boe per day guidance range.

Operating costs in the third quarter were \$8.42 per boe. These costs were impacted by a prior year adjustment at a third party facility. The Company now expects operating costs to average \$8.00 per boe in 2007, compared to prior guidance of \$7.75 per boe.

Guidance with respect to the 2007 capital budget (\$52 million), royalties (17% annual average), G&A expenses (\$2.00 per boe) are unchanged from prior guidance.

Given the current business environment, ProspEx will continue to be selective with respect to capital investments. Capital will be allocated to projects that show the best returns, or that represent the capture of new opportunities. One exploration well has been drilled and cased to date in the fourth quarter. The Company expects to drill two to three wells in West Central Alberta in the fourth quarter, in addition to the well currently drilling in Garrington. A drilling program in the Deep Basin is also expected to start later in the quarter. The Company also notes that drilling is underway at the Salter prospect, with no capital exposure to ProspEx.

### **Conference Call and Conference Presentation**

ProspEx will be conducting a conference call at 8:00 a.m. MST (10:00 a.m. EST) on Friday, November 9, 2007. Callers from the Toronto area may dial 416-915-5650 and all other participants may dial the toll free number 1-800-814-3911 to join the call. A taped recording will be available until Friday, November 23, 2007 by dialing 416-640-1917 from the Toronto area and 1-877-289-8525 from all other areas. The passcode is 21253141 followed by the number sign.

This call will also be broadcast live on the internet and may be accessed at ProspEx's website at [www.psx.ca](http://www.psx.ca).

ProspEx will be presenting at the upcoming FirstEnergy/Société Générale EnergyGrowth Conference on Wednesday, November 14, 2007. The presentation will be available via webcast on the ProspEx's website at [www.psx.ca](http://www.psx.ca) at 11:00 a.m. EST (9:00 a.m. MST) on Wednesday, November 14, 2007.

### **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](http://www.sedar.com)), at ProspEx's website ([www.psx.ca](http://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, except as required by law. 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 September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
<b>FINANCIAL (\$000's)</b>				
Oil and gas revenue	16,004	14,071	47,628	37,964
Net earnings (loss)	(1,352)	440	(911)	2,937
Cash flow <sup>(1)</sup>	7,912	7,269	26,634	20,321
Total assets	169,923	134,140	169,923	134,140
Net debt <sup>(1)</sup>	43,292	26,527	43,292	26,527
Net earnings (loss) per share (\$ per share)				
basic	(0.03)	0.01	(0.02)	0.06
diluted	(0.03)	0.01	(0.02)	0.06
Cash flow per share (\$ per share) <sup>(1)</sup>				
basic	0.14	0.14	0.49	0.41
diluted	0.14	0.14	0.47	0.39
Weighted average common shares (000's)				
basic	53,966	50,204	53,895	49,620
diluted	56,247	53,120	56,369	52,243
<b>PRODUCTION VOLUMES</b>				
Natural gas (mcf/d)	21,743	18,335	19,888	16,741
Natural gas liquids (bbls/d)	548	515	451	340
Crude oil (bbls/d)	82	67	125	64
Total (boe/d) (6:1)	4,254	3,639	3,891	3,193
<b>SALES PRICES</b>				
Natural gas (\$/mcf)	6.33	6.14	7.20	6.67
Natural gas liquids (\$/bbl)	51.22	67.77	49.60	62.79
Crude oil (\$/bbl)	99.52	79.61	71.60	69.85
Total (\$/boe)	40.89	42.03	44.83	43.54
<b>NETBACKS (\$/boe)</b>				
Price <sup>(2)</sup>	40.89	42.03	44.83	43.54
Royalties	(7.79)	(8.46)	(6.96)	(7.96)
Operating costs	(8.42)	(8.21)	(7.94)	(6.83)
Transportation costs	(0.89)	(0.98)	(0.97)	(0.97)
General and administrative	(2.00)	(1.80)	(2.11)	(2.03)
Total	21.79	22.58	26.85	25.75
<b>CAPITAL (\$000's)</b>				
Drilling, completions and seismic	10,666	9,332	22,550	31,586
Facilities	1,383	2,215	11,115	10,223
Land and lease	300	382	3,857	4,618
Capitalized general & administrative	704	514	1,938	1,472
Total exploration & development	13,053	12,443	39,460	47,899
Property disposition	-	(10,842)	-	(10,842)
Net exploration & development	13,053	1,601	39,460	37,057
Other capital assets	49	64	157	251
Total capital	13,102	1,665	39,617	37,308

- (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 gains/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 nine months ended September 30, 2007, was prepared as at November 8, 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 our Annual Information Form, can be found at [www.sedar.com](http://www.sedar.com).

### HIGHLIGHTS OF THE THIRD QUARTER OF 2007

The third quarter of 2007 was highlighted by a 17% increase in production volumes compared to the same period in the prior year. As a result of realized oil and gas revenues, operating cash flow is up 9% during the third quarter and 31% for the first nine months of the year compared to the same periods in the prior year.

During the quarter, the Company commenced its summer drilling program, participating in 24 (14.4 net) wells with a 97% net success rate. This summer drilling program was highlighted by continued success drilling Cardium opportunities in West Central Alberta, as well as a 10 well operated drilling program in Medallion.

The Company continues to maintain a strong balance sheet with net debt at quarter end of \$43.3 million.

Despite a successful third quarter operating program, the business environment remains uncertain as natural gas prices continue to be low relative to both historical levels and oil prices. Concern over excess supply and high storage levels are expected to hamper any price recovery in the near future. In addition, the business environment has become unsettled due to the upcoming changes to the existing royalty rate framework as announced by the Alberta Government.

## RESULTS OF OPERATIONS

### Revenue

(\$000's)	Three Months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Natural gas sales	\$ 12,667	\$ 10,363	\$ 39,069	\$ 30,930
Oil sales	753	494	2,444	1,214
Natural gas liquids sales	2,584	3,214	6,115	5,820
Oil and gas revenue	\$ 16,004	\$ 14,071	\$ 47,628	\$ 37,964

During the three months ended September 30, 2007, oil and gas revenue was up 14% over the third quarter of 2006 due to a 17% increase in production offset by a 3% decrease in average prices. Natural gas revenue increased 22% to \$12.7 million from \$10.4 million during the same period in 2006 as a result of a 19% growth in production. Revenues from oil and natural gas liquids (NGLs) is down slightly to \$3.3 million from the third quarter of 2006. An 8% increase in oil and NGLs production was offset by lower oil and NGLs prices compared to the same period of 2006.

For the nine months ended September 30, 2007, oil and gas revenues increased 25% to \$47.6 million from \$38.0 million during the same period of 2006.

#### *Production*

Production for the third quarter of the year averaged 4,254 boe per day, 17% higher than last year's production of 3,639 boe per day and a slight increase over the previous quarter's average of 4,241 boe per day. Production was comprised of natural gas volumes of 21,743 thousand cubic feet ("mcf") per day which increased 19% over the third quarter of 2006 and oil and NGL volumes which increased 8% to 630 boe per day. For the nine months ended September 30, 2007, production was 3,891 boe per day, up 22% from the same period in 2006. Production is up from the prior year for both the quarter and the nine months ended September 30, 2007 as the Company realized the benefit of new production from wells drilled during the past winter drilling season. The majority of the new production came from the Company's growth areas in West Central Alberta and the Deep Basin.

The Company's production mix for both the third quarter and first nine months of the year is 85% natural gas and 15% oil and natural gas liquids.

#### *Average Selling Price (excluding unrealized gains or losses)*

Natural gas prices realized have declined steadily throughout 2007, consistent with market conditions. High natural gas storage inventories and a quiet hurricane season depressed the market for natural gas. As a result, the Company's realized gas prices for the third quarter of 2007 averaged \$6.33 per mcf, down 13% from the \$7.31 per mcf realized in the second quarter of 2007 but up 3% from last year's third quarter price of \$6.14 per mcf.

#### *Financial Instruments*

In anticipation of an unstable gas price environment, the Company utilized financial instruments to reduce gas price volatility and to maintain a more predictable cash flow. The Company entered into natural gas collars for 9,000 GJ per day for the summer of 2007, as well as an additional 4,000 GJ per day contract for the months of September and October 2007. All of these contracts are described in the financial instruments and risk management note to the consolidated financial statements. The realized gain on financial instruments, which is included in natural gas revenue for 2007, was \$1.5 million for the third quarter and \$2.3 million for the first nine months of the year. Comparatively, in 2006 the realized gain was \$0.6 million for the third quarter and \$1.0 million for the first nine months.

Changes in the estimated fair value of all financial instruments is recorded as an unrealized gain or loss. As a result, changes in the fair value of financial instruments due to fluctuating forward natural gas prices, purchases, or expiration of financial contracts can lead to volatility in net earnings for the period. At September 30, 2007, the net estimated fair value of all financial instruments was \$1.2 million. The decrease in the estimated fair value from June 30, 2007 resulted in an unrealized financial instrument loss of \$0.2 million in the third quarter of 2007. The decrease in estimated fair value from December 31, 2006 resulted in a 2007 year to date loss of \$1.9 million. These losses were mainly the result of a shorter remaining contract term of existing financial instruments, as gains have been realized for the portion of the contract which has expired, offset by additional contracts entered into by the Company.

## Royalty Expense

Royalty expense totaled \$3.0 million or 19% of revenue for the quarter ended September 30, 2007 versus last year's \$2.8 million expense or 20% of revenue. Royalty expense for the first nine months of 2007 was \$7.4 million or 16% of revenue compared to \$6.9 million or 18% of revenue in 2006. Year to date royalty expense is lower due to an additional \$1.2 million of capital cost recovery credits received during the second quarter as a result of capital expenditures incurred to build production facilities.

The Company's 2007 royalty rate is expected to be approximately 17% of revenue.

## Operating Costs

Operating costs for the third quarter of the year totaled \$3.3 million compared to last year's costs of \$2.7 million. On a boe basis, operating costs for the quarter are up from \$8.21 per boe during the third quarter of 2006 to \$8.42 per boe. For the first nine months of the year operating costs were \$8.4 million or \$7.94 per boe compared to \$6.0 million or \$6.83 per boe in 2006. This increase in operating costs is due to increased production in areas with higher unit operating costs, higher costs associated with general industry cost pressures and a prior year adjustment at a third party facility.

Operating costs for the full year 2007 are anticipated to average \$8.00 per boe in line with year to date average costs.

## Transportation Expenses

Transportation expenses for the three months ended September 30, 2007 were consistent with the same period of 2006 at \$0.3 million. On a per unit basis, transportation costs were \$0.89 per boe in the quarter down from \$0.98 per boe in 2006. Transportation expenses for the first nine months of the year were \$1.0 million or \$0.97 per boe in line with \$0.8 million or \$0.97 per boe for the same period of 2006.

## General and Administrative Expenses

(\$000's)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Gross general and administrative	\$ 1,653	\$ 1,297	\$ 4,896	\$ 4,087
Recoveries	(166)	(180)	(714)	(842)
Capitalized expenses	(704)	(514)	(1,938)	(1,471)
Net general and administrative expenses	\$ 783	\$ 603	\$ 2,244	\$ 1,774
Net general and administrative (\$/boe)	\$ 2.00	\$ 1.80	\$ 2.11	\$ 2.03

Net general and administrative costs ("G&A") for the three and nine months ended September 30, 2007 were \$0.8 million and \$2.2 million respectively compared to \$0.6 million and \$1.8 million for the same periods of 2006. On a boe basis, G&A for the quarter was \$2.00 compared to \$1.80 in 2006 and was \$2.11 for the first nine months of 2007 compared to \$2.03 for same period in 2006.

Higher G&A in 2007 is a result of the increased staffing levels required to manage higher production and activity associated with exploration success, as well as higher salary costs in an increasingly competitive labour market.

G&A costs are expected to average \$2.00 per boe for 2007.

## **Interest and Bank Charges**

Interest and bank charges were \$0.6 million for the third quarter and \$1.5 million for the first nine months of the current year compared to \$0.3 million and \$1.0 million for the comparable periods of 2006. This increase in costs reflects a higher utilization of the Company's credit facility in 2007.

## **Depletion, Depreciation and Accretion**

Depletion, depreciation and accretion ("DD&A") was \$9.3 million for the third quarter of 2007 and \$25.1 million year to date compared to \$6.9 million and \$17.1 million for the same periods of 2006. DD&A is higher in the current year due to production growth and a higher depletion rate. DD&A per boe is up in the current year as the cost of adding proved reserves over the past twelve months reflects the higher industry cost environment. It is anticipated that the depletion rate will continue to increase marginally as the capital program is executed.

## **Stock-Based Compensation**

Stock-based compensation expense for 2007 is consistent with the prior year at \$0.3 million for the third quarter and is down slightly for the first nine months of 2007 to \$0.8 million compared to \$0.9 million in 2006. The Company uses a graded vesting schedule therefore stock-based compensation decreases over the vesting period. 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.

## **Income Taxes**

A recovery of future income taxes of \$0.5 million was recorded for the quarter compared to an expense of \$0.7 million last year. A slight income tax expense was incurred during the nine months ended September 30, 2007 as compared to an expense of \$2.5 million during the same period of 2006.

The Company's has an estimated \$146.8 million in income tax pools at September 30, 2007 and does not anticipate being cash taxable for the remainder of the year.

## **Net Earnings (Loss) and Cash Flow**

The Company realized a net loss of \$0.9 million for the first nine months of the year compared to earnings of \$2.9 million last year. The Company realized a loss year to date compared to earnings in the same period of 2006 as the revenue earned from production growth was offset by a higher DD&A rate and a \$1.9 million unrealized financial instrument loss. Net income per share was \$(0.03) for the quarter and \$(0.02) for the first nine months of the year, down from earnings of \$0.01 for the third quarter and \$0.06 for the first nine months of 2006.

Cash flow is up 31% or \$6.3 million for the first nine months of 2007 compared to the same period of 2006. For the third quarter of the year, cash flow increased 9% to \$7.9 million from \$7.3 million in the prior year. The increase in cash flow over the prior year can be largely attributed to the increase in production levels as described earlier in this MD&A.

Diluted cash flow per share for the third quarter of 2007 of \$0.14 is in line with the same period of 2006. Consistent with the overall increase in cash flows, diluted cash flow per share for the first nine months of 2007 of \$0.47 is up 21% from the same period of the prior year.

## Capital Expenditures

(\$000's)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Drilling, completions & seismic	\$ 10,666	\$ 9,332	\$ 22,550	\$ 31,586
Facilities	1,383	2,215	11,115	10,223
Land and lease	300	382	3,857	4,618
Capitalized G&A	704	514	1,938	1,472
Total exploration & development capital	13,053	12,443	39,460	47,899
Property disposition	-	(10,842)	-	(10,842)
Net exploration & development capital	13,053	1,601	39,460	37,057
Other capital assets	49	64	157	251
Total capital expenditures	\$ 13,102	\$ 1,665	\$ 39,617	\$ 37,308

Exploration and development expenditures for the three and nine months ended September 30, 2007 were \$13.1 million and \$39.5 million respectively, compared to \$12.4 million and \$47.9 million respectively for the same periods last year (prior to inclusion of proceeds from the property disposition). During the quarter the Company's capital spending was focused on drilling and completions as 24 gross (14.4 net) wells were drilled.

The full year exploration & development capital budget remains at \$52.0 million.

## Liquidity & Capital Resources

At September 30, 2007, ProspEx had the following resources available to fund its capital expenditure program.

	(\$000's)
Working capital deficiency	\$ (10,826)
Long-term debt	(32,466)
Bank facilities available	60,000
Total resources available	\$ 16,708

Accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Due to the deterioration of North American gas price fundamentals, industry access to capital markets may become increasingly difficult, raising the credit risk on accounts receivable. The Company has not recorded an allowance for doubtful accounts at September 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*

In July 2007, the Company expanded its credit facility by \$10.0 million to bring the total credit facility to \$60.0 million.

At September 30, 2007, the Company had a \$60.0 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 of ProspEx.

### Share Capital

As at September 30, 2007, ProspEx had 53,975,551 common shares, 2,772,218 warrants, 406,131 special performance units and 4,595,917 options issued and outstanding.

As at November 8, 2007, ProspEx had 54,280,446 common shares, 2,724,121 warrants, nil special performance units and 4,655,917 options issued and outstanding.

### Commitments

The following table summarizes the outstanding contractual obligations of the Company for the remainder of 2007 and the following years:

(\$000's)	2007	2008	2009	2010	2011	Thereafter
Long-term debt	-	-	32,465	-	-	-
Building lease	96	384	32	-	-	-
Drilling rig contract	1,905	3,924	-	-	-	-
Process fees	126	400	300	225	36	-
Transportation	233	853	181	-	-	-
Seismic purchase	100	-	-	-	-	-
Other	2	4	-	-	-	-
<b>Total</b>	<b>2,462</b>	<b>5,565</b>	<b>32,978</b>	<b>225</b>	<b>36</b>	<b>-</b>

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

	2007				2006		2005	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial (\$000's, except per share amounts)</b>								
Oil and gas revenue	16,004	17,553	14,071	13,536	14,071	12,704	11,190	12,496
Net earnings (loss)	(1,352)	2,235	(1,794)	2,143	440	868	1,629	3,850
Per share - basic	(0.03)	0.04	(0.03)	0.04	0.01	0.02	0.03	0.08
- diluted	(0.03)	0.04	(0.03)	0.04	0.01	0.02	0.03	0.08
<b>Average Daily Production</b>								
Oil (bbls/d)	82	210	83	184	67	96	28	28
NGL (bbls/d)	548	513	290	276	515	287	212	91
Natural Gas (mcf/d)	21,743	21,108	16,757	16,221	18,335	17,948	13,890	11,651
Total (boe/d)	4,254	4,241	3,166	3,164	3,639	3,375	2,555	2,062
<b>Overall Netbacks (\$/boe)</b>								
Price <sup>(1)</sup>	40.89	45.48	49.38	46.50	42.03	41.37	48.66	66.69
Royalties	(7.79)	(3.97)	(9.85)	(7.16)	(8.46)	(7.12)	(8.36)	(10.15)
Operating Cost	(8.42)	(7.86)	(7.38)	(7.39)	(8.21)	(5.68)	(6.34)	(6.77)
Transportation Cost	(0.89)	(1.01)	(1.03)	(0.96)	(0.98)	(1.07)	(0.83)	(0.80)
Operating Netback	<u>23.79</u>	<u>32.64</u>	<u>31.12</u>	<u>30.99</u>	<u>24.38</u>	<u>27.50</u>	<u>33.13</u>	<u>48.97</u>

<sup>(1)</sup> Price does not include unrealized financial instrument loss.

## 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 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. Boe amounts have been calculated using a conversion rate of six 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. Royalty rate is calculated by dividing total royalties by oil and gas revenue.

## 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](http://www.sedar.com)), at ProspEx's website ([www.psx.ca](http://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, except as required by law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

**ProspEx Resources Ltd.**  
**Consolidated Balance Sheets**  
(unaudited)

(Stated in thousands of dollars)

	September 30, <u>2007</u>	December 31, <u>2006</u>
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 9,075	13,220
Prepaid expenses	618	746
Unrealized financial instrument gain	1,205	3,081
	<u>10,898</u>	<u>17,047</u>
Property, plant and equipment, net	159,025	142,649
Asset held for resale (note 2)	-	937
Future income tax asset (note 3)	-	1,103
	<u>\$ 169,923</u>	<u>161,736</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,724	29,990
	<u>21,724</u>	<u>29,990</u>
Long term debt (note 4)	32,466	16,766
Asset retirement obligation (note 5)	4,522	4,157
Future income tax liability (note 3)	3,747	-
	<u>62,459</u>	<u>50,913</u>
<b>Shareholders' Equity</b>		
Share capital (note 6)	83,469	87,459
Contributed surplus	5,890	4,348
Retained earnings	18,105	19,016
	<u>107,464</u>	<u>110,823</u>
	<u>\$ 169,923</u>	<u>161,736</u>

See accompanying notes to consolidated financial statements

Prosper Resources Ltd.  
Consolidated Statements of Earnings (Loss), Comprehensive Earnings and Retained Earnings  
(unaudited)

(Stated in thousands of dollars, except per share amounts)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Revenue				
Oil and gas	\$ 16,004	14,071	47,628	37,964
Unrealized financial instrument gain (loss)	(175)	1,110	(1,876)	1,919
Royalties	(3,051)	(2,833)	(7,391)	(6,940)
	<u>12,778</u>	<u>12,348</u>	<u>38,361</u>	<u>32,943</u>
Expenses				
Depletion, depreciation and accretion	9,270	6,926	25,145	17,120
Operating	3,298	2,749	8,435	5,952
Transportation	349	328	1,032	848
General and administrative	783	603	2,244	1,774
Interest and bank charges	585	299	1,541	957
Stock-based compensation	307	315	828	860
	<u>14,592</u>	<u>11,220</u>	<u>39,225</u>	<u>27,511</u>
Earnings (loss) before income taxes	<u>(1,814)</u>	<u>1,128</u>	<u>(864)</u>	<u>5,432</u>
Income Tax (note 3)				
Current expense	-	20	-	20
Future expense (recovery)	(462)	668	47	2,475
	<u>(462)</u>	<u>688</u>	<u>47</u>	<u>2,495</u>
Net earnings (loss) and comprehensive earnings for the period	<u>(1,352)</u>	<u>440</u>	<u>(911)</u>	<u>2,937</u>
Retained earnings, beginning of period	<u>19,457</u>	<u>16,433</u>	<u>19,016</u>	<u>13,936</u>
Retained earnings, end of period	<u>\$ 18,105</u>	<u>16,873</u>	<u>18,105</u>	<u>16,873</u>
Net earnings (loss) per share				
Basic	<u>\$ (0.03)</u>	<u>0.01</u>	<u>(0.02)</u>	<u>0.06</u>
Diluted	<u>\$ (0.03)</u>	<u>0.01</u>	<u>(0.02)</u>	<u>0.06</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 September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
<b>Operations</b>				
Net earnings (loss) for the period	\$ (1,352)	440	(911)	2,937
Items not involving cash				
Depletion, depreciation and accretion	9,270	6,926	25,145	17,120
Stock-based compensation	307	315	828	860
Unrealized financial instrument loss (gain)	175	(1,080)	1,876	(1,889)
Future income tax expense (recovery)	(462)	668	47	2,475
Asset retirement expenditures	(26)	-	(351)	(1,182)
	<u>7,912</u>	<u>7,269</u>	<u>26,634</u>	<u>20,321</u>
Changes in non-cash working capital	9,737	6,820	(175)	(4,036)
	<u>17,649</u>	<u>14,089</u>	<u>26,459</u>	<u>16,285</u>
<b>Financing</b>				
Issuance of common shares	28	(34)	338	6,589
(Decrease) increase in long term debt	(10,057)	(19,368)	15,700	12,727
	<u>(10,029)</u>	<u>(19,402)</u>	<u>16,038</u>	<u>19,316</u>
<b>Investments</b>				
Exploration and development expenditures	(13,053)	(12,443)	(39,460)	(47,899)
Property disposition	-	10,842	937	10,842
Other capital assets	(49)	(64)	(157)	(251)
	<u>(13,102)</u>	<u>(1,665)</u>	<u>(38,680)</u>	<u>(37,308)</u>
Changes in non-cash working capital	5,482	6,978	(3,817)	1,707
	<u>(7,620)</u>	<u>5,313</u>	<u>(42,497)</u>	<u>(35,601)</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 nine months ended September 30, 2007

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. 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 sell. 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 September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Earnings (loss) before taxes	\$ (1,814)	\$ 1,128	\$ (864)	\$ 5,432
Rate	32.12%	34.50%	32.12%	34.50%
Computed expected provision for future income taxes	(583)	389	(278)	1,874
Increase (decrease) in taxes resulting from:				
Valuation allowance	-	-	-	-
Non-deductible crown payments	-	338	-	669
Resource allowance	-	(233)	-	(675)
Stock-based compensation	99	218	266	594
Effect of change in tax rate	(116)	41	(79)	307
Other	138	(85)	138	(294)
	(462)	668	47	2,475
Capital taxes		20		20
Income tax expense (recovery)	\$ (462)	\$ 688	\$ 47	\$ 2,495

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

(\$000's)	
Tax assets (liabilities):	
Property, plant and equipment	\$ (3,973)
Asset retirement obligation	495
Share issue costs	561
Other	(330)
	(3,247)
Valuation allowance	(500)
Future income tax liability	\$ (3,747)

At September 30, 2007, the Company had estimated tax deductions available to reduce future taxable income of \$146.8 million (2006 – \$125.0 million).

## 4. LONG-TERM DEBT

At September 30, 2007, the Company had a \$60.0 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 of ProspEx.

## 5. ASSET RETIREMENT OBLIGATION

The Company has estimated the net present value of its total asset retirement obligation at September 30, 2007 to be \$4.5 million (2006 - \$4.1 million) based on a total future liability of \$18.4 million (2006 - \$13.9 million). The total future liability was estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of when the costs will be incurred. These payments are expected to be made over the next 45 years with the majority of costs incurred between 2036 and 2045. A 7% interest rate and 2% inflation rate were used to calculate the present value of the asset retirement obligation.

(\$000's)	
Balance, at January 1, 2007	\$ 4,157
Liabilities incurred	351
Liabilities settled	(351)
Change in timing of estimated cashflows	145
Accretion expense	220
<b>Balance, at September 30, 2007</b>	<b>\$ 4,522</b>

## 6. SHARE CAPITAL

### (a) Common Shares & Common Share Performance Warrants Issued

	September 30, 2007		September 30, 2006	
	Number of Shares/Warrants (000's)	Amount (\$000's)	Number of Shares/Warrants (000's)	Amount (\$000's)
<b>Common shares</b>				
Balance at the beginning of the period	53,790	85,682	48,932	65,214
Flow-through shares tax adjustment		(4,461)		(2,048)
Warrants cancelled		13		
Shares issued for warrants	114	228	59	120
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)		(329)
<b>Balance at the end of the period</b>	<b>53,976</b>	<b>81,774</b>	<b>50,215</b>	<b>69,984</b>
<b>Common share performance warrants</b>				
Balance at the beginning of the period	2,908	1,778	3,032	1,853
Exercised	(114)	(69)	(59)	(36)
Cancelled	(22)	(14)		
<b>Balance at the end of the period</b>	<b>2,772</b>	<b>1,695</b>	<b>2,973</b>	<b>1,817</b>
<b>Share Capital at end of period</b>		<b>\$ 83,469</b>		<b>\$ 71,801</b>

**(b) Stock Options and Special Performance Units**

Changes in special performance units during the period ended September 30,

(000's)	2007	2006
Outstanding at beginning of the period	436	872
Cancelled	(30)	-
Outstanding at the end of the period	406	872

Changes in outstanding stock options during the period ended September 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	1,575	4.06	1,046	3.94
Exercised	(72)	3.38	(24)	3.22
Cancelled	(261)	4.03	-	-
Outstanding at the end of the period	4,596	\$ 3.65	3,336	\$ 3.47

The fair value of options granted during the nine months of 2007 was \$2.6 million (2006 - \$1.7 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	43%
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. \$0.8 million (2006 - \$0.9 million) of stock and unit-based compensation was recorded against income in 2007 and \$0.8 million (2006 - \$0.9 million) was capitalized.

**(c) Per Share Amounts**

In computing diluted net earnings per share for the quarter ended September 30, 2007, 2,281,449 (2006 - 2,916,267) common shares were added to the weighted average number of common shares outstanding of 53,965,986 (2006 - 50,203,981). A total of 2.6 million (2006 - 1.2 million) options were excluded from the diluted calculations as they were not dilutive.

In computing diluted net earnings per share for the nine months ended September 30, 2007, 2,473,461 (2006 - 2,622,437) common shares were added to the weighted average number of common shares outstanding of 53,895,335 (2006 - 49,620,335). A total of 2.3 million (2006 - 3.1 million) options were excluded from the diluted calculations as they were not dilutive.

## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative financial instruments and physical contracts to manage its exposure to volatility in commodity prices. These contracts are entered into solely for hedging purposes and are not used for trading or other speculative purposes. The contracts in place at September 30, 2007 are summarized below.

<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Price</u>	<u>Type</u>
Collar	2,000 GJ	April 1 - October 31, 2007	\$7.00 - \$8.05 at AECO	Financial
Collar	2,000 GJ	April 1 - October 31, 2007	\$7.00 - \$8.50 at AECO	Financial
Collar	2,000 GJ	April 1 - October 31, 2007	\$7.00 - \$9.07 at AECO	Physical
Collar	3,000 GJ	April 1 - October 31, 2007	\$7.00 - \$8.27 at AECO	Physical
Fixed Price	2,000 GJ	September 1 - October 31, 2007	\$5.40 at AECO	Financial
Fixed Price	2,000 GJ	September 1 - October 31, 2007	\$5.90 at AECO	Financial
Collar	2,500 GJ	November 1, 2007 - March 31, 2008	\$7.00 - \$8.40 at AECO	Physical
Collar	2,500 MMBTU	November 1, 2007 - March 31, 2008	\$6.76 - \$8.40 USD 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. Due to the deterioration of North American gas price fundamentals, industry access to capital markets may become increasingly difficult, raising the credit risk on accounts receivable. The Company has not recorded an allowance for doubtful accounts at September 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 September 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.

## 8. ADDITIONAL DISCLOSURES

Net cash interest paid during the quarter was \$0.2 million (2006 - \$0.1 million). Cash taxes paid during the period were \$nil (2006 - \$nil).

## 9. RECLASSIFICATION

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

### Contact Information

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