



ProspEx Reports 2007 Results and Provides Operational Update

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

CALGARY, March 17, 2008 / CNW / - ProspEx Resources Ltd. ("ProspEx" or the "Company") is pleased to announce its financial and operating results for the three month period and year ended December 31, 2007 and to provide an update on current operations.

"2007 was a successful year at ProspEx, in a very challenging business environment. With 22% annual average production growth the Company was successful in meeting its production growth goals," said John Rossall, President and Chief Executive Officer. "Finding and development costs were reduced by almost 50% in 2007 compared to 2006. We also enjoyed a successful winter drilling program and have a substantial amount of new production that should be tied in over the next month".

HIGHLIGHTS

- Production in the fourth quarter of 2007 averaged 3,922 boe per day, a 24% increase over the prior year.
- Annual average production for 2007 was 3,899 barrels of oil equivalent ("boe") per day. Production per fully diluted share in 2007 increased by 15.2% relative to 2006.
- The Company replaced 216% of 2007 production and increased its year end reserves by 20% on a Proved plus Probable basis. Reserves per fully diluted share increased by 18.1% on a Proved plus Probable basis.
- Finding and development costs for 2007 were \$16.84 per boe on a Proved plus Probable basis, including future development capital, but not including revisions. Reported 2007 costs were increased by a negative revision to reserves booked in prior years. With these revisions taken into account, along with future development capital, finding and development costs were \$21.09 per boe on a Proved plus Probable basis, representing a substantial improvement compared to 2006.
- With debt to trailing cash flow of only one year, the Company believes its financial position is strong
- Exploration and development spending for the full year 2007 was \$48.6 million, slightly less than the Company's \$52 million capital budget, reflecting a measured approach to spending in the face of lower natural gas prices and uncertainty over the new royalty framework in Alberta.
- In January 2008, ProspEx completed an acquisition of partner assets in the Ricinus area with production of 360 boe per day, for consideration of \$11.6 million after closing adjustments.
- ProspEx's first quarter 2008 drilling program is now complete with a 100% success rate. Three (1.8 net) wells were successfully drilled at Kakwa in the Deep Basin and one (1.0 net) well was drilled and completed at Ricinus in West Central Alberta. In the Company's "high impact" program, wells at Salter and Edson were completed in the first quarter.
- ProspEx expects to bring approximately 800 to 1,000 boe per day of new production on stream in the next month from facilities construction projects currently underway at Harmattan, Ricinus, Kakwa and Salter.

OPERATIONAL REVIEW

Capital Program

Capital Expenditures (\$000s)	Q4 2007	Full Year 2007
Drilling & Completions	6,264	26,718
Facilities	1,266	12,381
Land and lease	526	4,383
Seismic	320	2,416
Capitalized G&A	714	2,652
Total Exploration & Development	9,090	48,550

Exploration and development capital expenditures of \$48.6 million in 2007 were substantially reduced from \$73.5 million (prior to dispositions) for the full year 2006. In the fourth quarter of 2007, exploration and development capital spending was \$9.1 million compared to \$25.6 million in the fourth quarter of 2006. ProspEx reduced the pace of its capital spending in late 2007, due to low natural gas prices, uncertainty around the new royalty framework in Alberta, and generally poor conditions in the capital markets. Capital spending was less than the Company's \$52 million capital budget.

During 2007, the Company incurred \$26.7 million in drilling and completion expenditures to drill 48.3 gross (26.3 net) wells with a 93.4% net success rate. In the fourth quarter of 2007, ProspEx participated in 16 (7.25 net) wells.

Over the course of 2007, the Company incurred substantial facilities construction expenditures of \$12.4 million, equivalent to 25% of the total capital budget. Approximately \$4.5 million was spent in Harmattan to construct gathering system, compression and oil processing facilities.

Total capital spending for the first quarter of 2008 is estimated to be approximately \$28.0 million, including the Ricinus asset acquisition (\$11.6 million). Although the natural gas pricing outlook improved thus far over the quarter, the Company continued to maintain a conservative pace of spending, including the deferral of some exploration and development capital to partially offset the cost of the Ricinus acquisition.

West Central Alberta

At Harmattan, ProspEx continues to develop its Cardium discovery. ProspEx drilled one (1.0 net) successful well in the fourth quarter of 2007 and now has an inventory of three (3.0 net) completed wells at Harmattan which are estimated to have initial net production capability of 500 boe per day. Construction of facilities to bring these wells onstream is nearing completion, with these facilities expected to be in service in April. Wellsites have been constructed for two (1.5 net) additional wells which will be drilled as soon as surface conditions permit in the second quarter of 2008.

In the first quarter of 2008, the Company drilled one well in Ricinus pursuant to a farm-in arrangement (100% capital interest, 75% interest in production). This well has been completed and flow tested at a rate of approximately 200 boe per day. This well is expected to come on stream in late March.

Deep Basin

ProspEx's first quarter 2008 drilling program in the Deep Basin included three (1.8 net) wells, all of which were successful. The first of these wells, together with two wells drilled in 2007 are expected to be on stream by the end

of March at an aggregate initial rate of 300 boe per day net to ProspEx. Two (1.2 net) additional wells have been cased, with completions planned after spring breakup.

As a result of pooling and farm-in deals associated with the Kakwa program, in addition to purchases at Crown land sales, the Company has expanded its Kakwa area land position by 19 gross (9 net) sections, providing additional prospect inventory offsetting wells drilled this winter.

Southern Alberta

In the fourth quarter of 2007, ProspEx participated in 11 (4.0 net) partner operated wells at its Medallion property in Southern Alberta. Ten of these wells have been completed, and pipeline tie-ins are in progress.

In Granum, a 100% working interest well was drilled in the fourth quarter and has been tied in at an initial rate of 65 boe per day.

High Impact Exploration

At Salter, a horizontal well was drilled and completed in the first quarter in the Mississippian Rundle Group in a Foothills structure. This well is expected to be on stream in April 2008 at a facilities restricted rate of 2 million cubic feet ("mmcf") per day (approximately 100 boe per day net to ProspEx). ProspEx has a 40% interest in the production from this well.

In the Edson area, a well (35% ProspEx interest) was deepened into the Devonian Wabamun in the first quarter and completed for gas production. Testing operations are now underway at this well.

MANAGEMENT APPOINTMENT

Mr. Peter Parkinson succeeded Mr. Scott Godsman in the role of Vice President, Land, effective February 15, 2008. Prior to joining ProspEx in April of 2007 as Senior Landman, Mr. Parkinson was most recently the Vice President, Land at Berland Exploration Ltd., a private oil and gas company. ProspEx would like to extend its thanks to Mr. Godsman for his contributions to the Company's success since its inception in October, 2004.

PRODUCTION AND GUIDANCE

Production (boe/d)	Q4 2007	2007
	Average	Annual Average
West Central	1,305	1,334
Deep Basin	1,472	1,402
Southern Alberta	1,134	1,152
Other	11	11
Total	3,922	3,899

Production for the fourth quarter of 2007 was 3,922 boe per day, a 24% increase over the fourth quarter of 2006, and a decrease of 8% compared to the third quarter of 2007. The decrease in production compared to the third quarter reflects natural declines in the Company's production base, as well as facility restrictions and downtime at Wapiti and Harmattan that resulted in lost production of 175 boe per day.

Annual average production for 2007 was 3,899 boe per day, an increase of 22% from the 2006 annual average. Production per fully diluted share increased by 15.1%, based on a weighted average total of 56.3 million shares outstanding in 2007 and 53.0 million shares in 2006.

2008 Guidance Summary

Production

Annual Average	4,200 to 4,500 boe per day
Capital expenditures	\$55 million
Operating costs	\$8.00 per boe
G&A	\$2.15 per boe
Royalties	20%

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

ProspEx's 2008 capital budget is currently \$55 million (including the Ricinus acquisition). The Company will reassess its plans for the year during the second quarter, when it is anticipated that there will be better information regarding natural gas prices, details of new Alberta royalties and the results of the winter drilling program will be known.

First quarter 2008 production is expected to be slightly less than production in the fourth quarter of 2007. At Medallion, approximately 80 boe per day of production was lost during the first quarter due to operational problems and cold weather. Approximately 50 boe per day of net production is shut in at Ricinus pending receipt of a regulatory "good production practice" approval that is expected to be received in the near future. Most importantly, the Company elected to reduce its level of capital spending in the fourth quarter of 2007, and as a result only 2.25 net wells were drilled in the key growth areas of West Central Alberta and the Deep Basin. Consequently, new production additions over the past quarter have not offset production declines and thus overall production has been flat to modestly decreasing.

Notwithstanding these challenges, the Company has a substantial volume of new production scheduled to come onstream in the near future. As discussed above, facilities projects are underway at Harmattan, Ricinus, Kakwa and Salter that are expected to bring approximately 800 to 1,000 boe per day of new production on stream in the next month.

OIL AND GAS RESERVES DATA

An independent evaluation of ProspEx's reserves at December 31, 2007 was conducted by GLJ Petroleum Consultants Ltd. ("GLJ") and prepared in accordance with the reporting guidelines of National Instrument 51-101 of the Canadian Securities Administrators ("NI 51-101"). Under NI 51-101, the "best estimate" for reserves is the Proved plus Probable ("P+P") category. In this category the Company's reserves increased by 9.9 billion cubic feet ("bcf") of natural gas and 14 thousand barrels ("mbls") of oil and natural gas liquids ("NGL") for a total increase of 1,656 thousand barrels of oil equivalent ("mboe") in the period January 1, 2007 to December 31, 2007. ProspEx had no acquisition or disposition activity that effected reserves in 2007, as the Company's acquisition of assets in the Ricinus area closed in January of 2008. The complete reserves disclosure as required under NI 51-101, will be contained in ProspEx's 2007 Annual Information Form, to be filed on SEDAR on or before March 31, 2008.

The Company replaced 161% of 2007 production through exploration and development activities on a Proved basis, and 216% of 2007 production on a P+P basis. Reserves growth over the year was 15% on a Proved basis and 20% on a P+P basis. Reserves per fully diluted share increased by 13.2% on a Proved basis and 18.1% on a P+P basis,

using a weighted average number of fully diluted shares of 56.2 million outstanding in the fourth quarter of 2007 and 55.3 million in the fourth quarter of 2006.

The Proved reserve life index at December 31, 2007, calculated using fourth quarter 2007 production on an annualized basis, was 4.6 years. The P+P reserve life index was 6.9 years.

In 2007, ProspEx added 3,857 mboe of P+P reserves. In West Central Alberta, 1,500 mboe were added, with 1,083 mboe attributable to five (four net) wells in Harmattan. In the Deep Basin, 628 mboe of reserve additions were recorded for three (1.55 net) wells. In Southern Alberta, 488 mboe (2.0 net wells) were added at Granum and 1,242 mboe were added at Medallion.

Reported reserves included a negative revision to reserves on a Proved basis of 278 mboe, and a negative revision of 778 mboe on a P+P basis. The largest revisions were at Ricinus and Harmattan in West Central Alberta. At Ricinus, production performance from two wells at the extreme northern and southern ends of the Company's lands was less than anticipated, resulting in a negative revision of 293 mboe on a P+P basis. A positive revision of 52 mboe (P+P) was recorded in the central portion of ProspEx's Ricinus lands, where the Company acquired additional assets in early 2008. At Harmattan, natural gas production performance exceeded expectations, resulting in a positive revision of 830 mmcf, although oil and NGL production was less than anticipated, resulting in a net negative revision of 202 mboe on a P+P basis.

ProspEx has made substantial improvement in finding and development cost performance over the past year. Finding and development costs were \$26.01 per boe on a Proved basis and \$21.09 per boe on a P+P basis, including revisions and future development costs (there were no acquisitions or dispositions). In 2006, finding and development costs were \$31.14 per boe on a Proved basis and \$37.87 per boe on a P+P basis, including revisions and future development costs (but not including acquisitions and dispositions).

Without the revisions discussed above, but including future development costs, finding and development costs were \$23.19 per boe on a Proved basis and \$16.84 on a P+P basis, indicative of strong economic performance of the Company's 2007 capital program.

Finding and development costs in 2007 were lower due to improved industry conditions and a focus on cost reduction. ProspEx has experienced reductions of 25 to 30 percent on recent drilling and completion costs in West Central Alberta and the Deep Basin, compared to "peak" costs experienced in late 2005 and early 2006. In 2008, the Company will continue to work towards reducing finding and development costs.

Drilling and completions capital is usually regarded as the portion of exploration and development capital spending that generates reserves additions. In 2007, only 55% of exploration and development capital was spent on drilling and completions, compared to 64% in 2006, resulting in upward pressure on finding and development costs.

Recycle ratio is the ratio of operating netback to finding and development costs, and is a measure of the economic efficiency of the capital program. A recycle ratio of 1.1 was achieved on a Proved basis, and 1.4 on a Proved plus Probable basis.

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

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

implementation of the framework contemplated by the October 25, 2007 announcements. There can be no assurance that the Government of Alberta or the Government of Canada will not adopt new royalty regimes which may render the Company's projects uneconomic.

This reserves evaluation was conducted by GLJ in accordance with existing royalty regulations in the Province of Alberta, as the proposed new royalty framework has not yet been enacted as legislation. However, GLJ performed a sensitivity analysis to determine the potential impact of the new royalty framework. As the precise details of the new framework are not known at this time, GLJ evaluated a "high" and a "low" case with different royalty assumptions. The high case assumes that all wells will receive the proposed deep gas royalty adjustment regardless of when they were drilled, while the low case assumes that the reduction in royalties for deep gas wells will only apply to wells drilled after January 1, 2009. In the high case, the value of the Company's P+P reserves, evaluated before tax at a 10% discount rate, decreased by 1% relative to the current royalty regime. In the low case, the value of the Company's P+P reserves, evaluated before tax at a 10% discount rate, decreased by 2.6%.

Reserve Balance

Company Interest (working interest plus royalties receivable)
December 31, 2007
(forecasted prices)

	Oil (mmbbls)	NGLs (mmbbls)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Proved Producing	35	448	22,924	4,303
Proved Developed Non-Producing	16	439	5,060	1,298
Proved Undeveloped	9	39	5,571	977
Total Proved	60	926	33,554	6,578
Proved Plus Probable ⁽¹⁾	73	1,295	51,267	9,913

⁽¹⁾ Columns may not add due to rounding

Company Interest Reserves Reconciliation

	Proved			Proved Plus Probable		
	Oil & NGLs (mmbbls)	Natural Gas (mmcf)	Oil Equivalent (mboe)	Oil & NGLs (mmbbls)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening Balance – Jan. 1, 2007	999	28,303	5,716	1,355	41,413	8,257
Drilling additions and improved recovery	611	11,711	2,563	821	18,210	3,857
Technical revisions & economic factors	(408)	782	(278)	(592)	(1,115)	(778)
Acquisitions/Divestitures	-	-	-	-	-	-
Net additions	203	12,493	2,285	230	17,095	3,079
Production	217	7,241	1,423	217	7,241	1,423
Closing balance – Dec. 31, 2007 ⁽¹⁾	986	33,554	6,578	1,368	51,267	9,913

⁽¹⁾ Columns may not add due to rounding

Performance Metrics

	Total Proved	Proved Plus Probable
Capital (\$000's)		
Future development capital		
January 1, 2007	12,155	20,210
December 31, 2007	23,032	36,599
Change in future development capital	10,877	16,389
Exploration & development capital	48,550	48,550
Total 2007 capital expenditures	59,427	64,939
Acquisition & disposition capital	-	-
Total 2007 capital expenditures including acquisitions	59,427	64,939
Reserves		
Net reserves additions for the period (mboe) (excluding acquisitions & dispositions)	2,285	3,079
Net reserves additions for the period (mboe) (including acquisitions & dispositions)	2,285	3,079
2007 Finding & Development Costs (\$/boe)	26.01	21.09
2007 Finding, Development & Acquisition Costs (\$/boe)	26.01	21.09
2006 Finding & Development Costs (\$/boe)	31.14	37.87
2006 Finding, Development & Acquisition Costs (\$/boe)	31.02	40.37
Three Year Average Finding & Development Costs (\$/boe)	29.44	22.80
Three Year Average Finding, Development & Acquisition Costs (\$/boe)	26.09	21.66
Operating Netback (\$/boe)	29.16	29.16
Finding & Development Costs (\$/boe)	26.01	21.09
2007 Recycle Ratio	1.12	1.38
Reserves additions including revisions (mboe)	2,285	3,079
Production (mboe)	1,423	1,423
2007 Reserves Replacement without disposition (%)	161%	216%
Reserves at Dec 31, 2007	6,578	9,913
Fourth Quarter Production (boe/d)	3,922	3,922
2007 Reserves Life based on fourth quarter production annualized (years)	4.6	6.9

Present Value of Cash Flows

ProspEx's reserves were evaluated using GLJ's December 31, 2007 price forecast. Cash flows are prior to income taxes and general and administrative expenses. Undeveloped land values are not included. Well abandonment costs have been included for wells that have reserves assigned.

\$thousands	Discount Rate			
	0%	8%	10%	12%
Proved Producing	107,792	83,888	79,684	75,949
Proved Developed Non-Producing	32,093	23,114	21,634	20,344
Proved Undeveloped	12,343	6,385	5,371	4,488
Total Proved ⁽¹⁾	152,228	113,387	106,689	100,782
Total Proved plus Probable	230,151	157,362	145,853	135,942

(1) Columns may not add due to rounding

Reader's Advisory

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

Certain information contained in this press release constitutes forward-looking information or statements including, without limitation, information and statements respecting:

- (a) the anticipated effects of the Government of Alberta's new royalty framework announced on October 25, 2007; and the effects of any other royalties (such as freehold or overriding royalties) payable in the future;
- (b) anticipated capital expenditures, production forecasts, production and reserves additions from the Company's historical and future capital programs or acquisitions, operating expenses, G&A, royalties, expected timing of the tie-in of wells, expected timing of the receipt of regulatory approvals and expected timing of the completion of facilities projects.

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

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

investors and others should also carefully consider information set forth in the section "Forward-Looking Information" of the Company's most recent Annual Information Form respecting the assumptions upon which the Company bases certain forward-looking information and the uncertainties inherent in such assumptions.

The Company does not assume responsibility for the accuracy and completeness of the forward-looking information or statements and such information and statements should not be taken as guarantees of future outcomes. Subject to applicable securities laws, the Company does not undertake any obligation to revise these forward-looking information or statements to reflect subsequent events or circumstances. Furthermore, the forward-looking information contained in this press release are made as of the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. The forward-looking information and statements contained in this press release are expressly qualified by this cautionary statement.

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

"Reserves replacement ratio" is calculated by dividing the sum of the reserves added, plus or minus any revisions, and dividing by the production volume over the period.

"Reserve life index" is calculated by dividing the reserves balance at year end by the annualized production rate during the prior quarter.

"Production per fully diluted share" is calculated by dividing average production over the period by the weighted average number of fully diluted shares outstanding over the period.

"Reserves per share" at year end is calculated by dividing the reserves balance at year end by the weighted average number of fully diluted shares outstanding in the fourth quarter of that year.

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

ProspEx Resources Ltd.

Consolidated Highlights

For the periods ended
(unaudited)

	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
FINANCIAL (\$000's)				
Oil and gas revenue	15,906	13,536	63,534	51,501
Net earnings (loss)	(180)	2,143	(1,091)	5,080
Cash flow ⁽¹⁾	9,363	7,641	35,997	27,962
Total assets	175,765	161,736	175,765	161,736
Total net debt	37,505	29,709	37,505	29,709
Net earnings (loss) per share (\$ per share)				
basic	0.00	0.04	(0.02)	0.10
diluted	0.00	0.04	(0.02)	0.10
Cash flow per share (\$ per share) ⁽¹⁾				
basic	0.17	0.15	0.67	0.56
diluted	0.17	0.14	0.64	0.53
Weighted average common shares (000's)				
basic	54,687	52,628	54,095	50,378
diluted	56,160	55,264	56,318	53,004
PRODUCTION VOLUMES				
Natural gas (mcf/d)	19,690	16,221	19,838	16,610
Natural gas liquids (bbls/d)	515	276	468	324
Oil (bbls/d)	125	184	125	94
Total (boe/d)	3,922	3,164	3,899	3,186
SALES PRICES				
Natural gas (\$/mcf)	6.89	7.40	7.12	6.92
Natural gas liquids (\$/bbl)	51.46	49.46	50.12	59.92
Oil (\$/bbl)	85.43	72.93	75.09	71.37
Total (\$/boe)	44.09	46.50	44.65	44.29
NETBACKS (\$/boe)				
Price	44.09	46.50	44.65	44.29
Unrealized financial instrument	(2.75)	4.17	(2.01)	2.69
Royalties	(5.41)	(7.16)	(6.57)	(7.76)
Operating costs	(8.06)	(7.39)	(7.97)	(6.97)
Transportation	(0.86)	(0.96)	(0.95)	(0.97)
General and administrative	(2.32)	(2.17)	(2.16)	(2.07)
Total (\$/boe)	24.69	32.99	24.99	29.21
CAPITAL (\$000's)				
Drilling and completions	6,264	15,987	26,718	46,893
Facilities	1,266	7,562	12,381	17,785
Land and lease	526	612	4,383	5,230
Seismic	320	922	2,416	1,603
Capitalized general and administrative	714	482	2,652	1,953
Property disposition	-	-	-	(10,842)
Other capital assets	<u>3</u>	<u>18</u>	<u>160</u>	<u>269</u>
Total	9,093	25,583	48,710	62,891

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

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the financial and operating results of ProspEx Resources Ltd. ("ProspEx" or the "Company") as well as a prospective view of the Company's activities. The MD&A is for the three and twelve months ended December 31, 2007 and was prepared as at March 14, 2008. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the audited consolidated financial statements and MD&A for the year ended December 31, 2006. The reader should be aware that historical results are not necessarily indicative of future performance.

RESULTS OF OPERATIONS

Net Income and Cash Flow

Cash flow for the fourth quarter of 2007 increased 23% to \$9.4 million from \$7.6 million in the same period of 2006. The increase in cash flow is the result of higher production offset by lower realized natural gas prices. During the final quarter of 2007, the Company recorded a net loss of \$0.2 million compared to net income of \$2.1 million for the comparable period of 2006. The decrease in net income was due to a combination of lower realized natural gas prices, higher depletion costs and the recognition of an unrealized financial instrument loss, offset by higher volumes.

Full year cash flow was up 29% from \$28.0 million in 2006 to \$36.0 million in 2007. As operating netback per boe remained consistent year over year the increase in cash flow is the result of higher volumes. The Company incurred a net loss of \$1.1 million for the year in 2007 compared to annual net earnings of \$5.1 million in 2006. Similar to the quarterly results, the majority of the decrease in net income was the result of higher depletion costs and the recognition of an unrealized financial instrument loss, partially offset by higher volumes.

Revenue

(\$000's)	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Natural gas	\$ 11,661	\$ 9,873	\$ 48,466	\$ 39,762
Realized gain on financial instruments	825	1,170	3,089	2,211
Total natural gas	12,486	11,043	51,555	41,973
Oil	984	1,236	3,428	2,451
Natural gas liquids	2,436	1,257	8,551	7,077
Oil and gas revenue	15,906	13,536	63,534	51,501
Unrealized financial instrument gain (loss)	(991)	1,213	(2,867)	3,132
Total revenue	\$ 14,915	\$ 14,749	\$ 60,667	\$ 54,633

Oil and gas revenue for the three months ended December 31, 2007 was \$15.9 million, representing an 18% increase over revenue of \$13.5 million for the same period of 2006. Revenue was up in the quarter due to increased production of 24% offset by a 5% decrease in average sales price.

As a result of a 22% growth in production, annual operating revenue for 2007 increased 23% to \$63.5 million from \$51.5 million in 2006.

Production

	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Area (boe/d)				
Deep Basin	1,472	913	1,402	828
West Central	1,305	1,108	1,334	1,175
Southern Alberta	1,134	1,131	1,152	1,169
Other Areas	11	12	11	14
	<u>3,922</u>	<u>3,164</u>	<u>3,899</u>	<u>3,186</u>
Natural gas (mcf/d)	19,690	16,221	19,838	16,610
Natural gas liquids (bbls/d)	515	276	468	324
Oil (bbls/d)	125	184	125	94
Total (boe/d)	<u>3,922</u>	<u>3,164</u>	<u>3,899</u>	<u>3,186</u>

Production for the fourth quarter of the year averaged 3,922 boe per day, up 24% compared to 3,164 boe per day in the fourth quarter of 2006 and down 8% compared to the third quarter of 2007. Natural gas represented 84% of production in the fourth quarter with the remaining 16% being light oil and natural gas liquids. Fourth quarter production is up over the prior year due to drilling success in the Company's West Central and Deep Basin areas. The decline in production from the third quarter reflects natural declines in the Company's production base, as well as facilities outages in the Deep Basin resulting in lost production of 75 boe per day. In Harmattan, declines and third party facility restrictions resulted in a reduction in production of approximately 100 boe per day compared to the third quarter of 2007.

Annual production for 2007 averaged 3,899 boe per day, an increase of 22% compared to an annual average of 3,186 boe per day in 2006. Production growth in 2007 is attributable to the addition of new production in the West Central area where new facilities were commissioned during the second quarter at Harmattan and exploration success in the Deep Basin area. Annual production was slightly below the Company's original guidance of 4,000 to 4,200 boe per day as a result of third party gas processing constraints at Harmattan, delayed capital spending in the Deep Basin due to wet weather and uncertainty surrounding the proposed changes to Alberta Crown Royalties.

Commodity Pricing

ProspEx Average Prices	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Natural gas (\$/mcf)				
Sales price	\$ 6.44	\$ 6.62	\$ 6.69	\$ 6.55
Realized gain on financial instrument	0.45	0.78	0.43	0.37
Average realized natural gas price	<u>6.89</u>	<u>7.40</u>	<u>7.12</u>	<u>6.92</u>
Oil (\$/bbl)	85.43	72.93	75.09	71.37
NGL (\$/bbl)	51.46	49.46	50.12	59.92
Average realized price (\$/boe)	<u>44.09</u>	<u>46.50</u>	<u>44.65</u>	<u>44.29</u>
Unrealized financial instrument gain (\$/boe)	(2.75)	4.17	(2.01)	2.69
Total average price (\$/boe)	<u>\$ 41.34</u>	<u>\$ 50.67</u>	<u>\$ 42.64</u>	<u>\$ 46.98</u>
Benchmark pricing				
AECO C Spot (\$/mcf)	\$ 6.12	\$ 6.87	\$ 6.42	\$ 6.48
Edmonton Par – light oil (\$/bbl)	\$ 86.36	\$ 64.48	\$ 76.33	\$ 72.77

On an annual basis, in 2007 the Company realized a natural gas price of \$7.12 per mcf, 3% higher than the annual realized price for 2006 of \$6.92 per mcf. While the AECO C Spot benchmark price declined slightly from 2006 to 2007, ProspEx realized a slight price increase as approximately half of the Company's production was subject to the AECO monthly index, which performed better than the AECO C spot prices in 2007. Realized natural gas prices also outperformed AECO spot prices due to the higher heating content of the Company's natural gas production in the Deep Basin and West Central Alberta areas. Realized gains from our financial instrument program added \$0.43 per mcf to the annual price compared to \$0.37 per mcf added in 2006.

During the fourth quarter of 2007, AECO C spot prices for natural gas decreased by 11% compared to the fourth quarter of 2006. In comparison, the Company's sales price decreased by only 3% as approximately 50% of gas was sold at the AECO monthly index which was higher than the AECO C daily spot price in 2007 and lower than the AECO C daily spot in 2006. The Company's fourth quarter realized price includes an additional \$0.45 per mcf realized from hedging gains.

ProspEx's 2007 annual realized oil price increased 5% over 2006, consistent with the increase in Edmonton Par prices. Realized oil prices for the fourth quarter of 2007 averaged \$85.43 per barrel, an increase of 17% from the \$72.93 per barrel realized during the same period in 2006. Oil prices did not increase proportionately with the benchmark price which showed an increase of 34%, comparing the fourth quarter of 2007 to 2006, due to a prior year amendment at the lower 2006 prices.

The annual average price realized for natural gas liquids decreased 16% from \$59.92 per barrel in 2006 to \$50.12 per barrel in 2007. The price realized for natural gas liquids during the fourth quarter increased 4% from 2006 to 2007. Natural gas liquids prices did not reflect the increase in oil benchmark pricing due to an increase in the proportion of ethane in the Company's overall NGL mix, and the lower price received for ethane, which tends to track natural gas pricing.

Financial Instruments

In an effort to mitigate the effects of volatile commodity prices and ensure cash flow to fund its exploration and development programs, ProspEx enters into financial instruments such as forwards, futures, swaps and costless collars. These financial instruments, which are predominantly costless collars, allow the Company to better forecast operating cashflow, in-turn providing the Company with greater confidence in funding for its operations. In 2007, the Company's risk management program resulted in a net realized gain of \$3.1 million for the year compared to \$2.2 million in 2006 and \$0.8 million during the fourth quarter of 2007 compared to \$1.2 million during the fourth quarter of 2006.

The fair values of unsettled financial instruments are recorded as a current asset or liability with the change in the fair value recorded as an unrealized gain or loss in the statements of earnings and cash flows. As a result, changes in the fair value of financial instruments due to fluctuating forward natural gas prices and the purchase or expiration of financial contracts can lead to volatility in net earnings for the period. The financial instruments unsettled as of December 31, 2007 are described in the financial instruments and risk management note to the consolidated financial statements. The fair value of unsettled financial instruments at December 31, 2007 was an asset of \$0.2 million compared to an asset of \$3.1 million at December 31, 2006 and \$1.2 million at September 30, 2007 resulting in an unrealized financial instrument loss of \$1.0 million for the fourth quarter of 2007 and \$2.9 million for the year. The loss in value from December 31, 2006 and the end of the third quarter was due mainly to the expiration and realization of contracts in place, partially offset by the fair value of new contracts.

Subsequent to year end, ProspEx entered into collars for 10,000 gigajoules (“GJ’s”) per day for the summer of 2008 and 4,000 GJ’s per day for the winter of 2008/09. These contracts are described in the financial instruments and risk management note to the consolidated financial statements.

Royalty Expense

(\$000’s, except percentage and per boe amounts)	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Crown	\$ 1,302	\$ 1,863	\$ 6,219	\$ 6,518
Freehold and GORR	<u>650</u>	<u>220</u>	<u>3,124</u>	<u>2,506</u>
Total Royalties	\$ 1,952	\$ 2,083	\$ 9,343	\$ 9,024
\$ Per boe	\$ 5.41	\$ 7.16	\$ 6.57	\$ 7.76
As a percentage of oil and gas revenue (%)	12	15	15	18

Royalty expense in the fourth quarter of 2007 was \$2.0 million or 12% of oil and gas revenue, compared to \$2.1 million or 15% of revenue in the same period of 2006. The decrease in royalties as a percentage of revenue was the result of the recognition and approval of royalty holidays on new wells.

2007 full year royalty expense was \$9.3 million or 15% of oil and gas revenue, compared to \$9.0 million or 18% of oil and gas revenue for 2006. Annual royalty expense as a percentage of revenue is lower in the current year 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. Royalties for the year were below guidance as the Company’s risk management program resulted in realized natural gas prices which were above the 2007 market prices used for royalty calculations, and due to the capital cost recovery credit received during the year.

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

On October 25, 2007, the Government of Alberta unveiled a new framework to calculate the royalties payable to it for conventional oil, natural gas and bitumen that are based on, among other things, price, production and depth of wells. This framework has a proposed effective date of January 1, 2009, however many material details of the revised royalty structure have yet to be finalized or announced. Further, the Government of Alberta has publicly indicated that it intends for the revised royalty structure to be reviewed and revised from time to time following the implementation of the framework contemplated by the October 25, 2007 announcements. There can be no assurance that the Government of Alberta or the Government of Canada will not adopt new royalty regimes which may render the Company’s projects uneconomic.

Operating Costs

	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Operating costs (\$000’s)	2,907	2,152	11,341	8,104
Operating costs (\$/boe)	\$ 8.06	\$ 7.39	\$ 7.97	\$ 6.97

The Company’s unit operating costs increased during the year and the fourth quarter of 2007 compared to the same periods of 2006 due to increased processing fees and cost associated with new production in West Central Alberta. Unit operating costs in the Deep Basin were essentially unchanged from 2006 to 2007, while Southern Alberta operating costs declined modestly.

2007 annual operating costs per boe were consistent with the Company's guidance of \$8.00 per boe.

Transportation Expenses

	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Transportation expenses (\$000's)	311	281	1,343	1,129
Transportation expenses (\$/boe)	\$ 0.86	\$ 0.96	\$ 0.95	\$ 0.97

Transportation expense per boe is down in the fourth quarter of 2007 compared to the same period of 2006 reflecting better utilization of firm transportation contracts during the second half of 2007.

Annual transportation expense per boe decreased 2% from 2006 to 2007 reflecting better utilization of firm transportation contracts during the second half of 2007.

General and Administrative Expenses

(\$000's)	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Gross general and administrative	\$ 1,787	\$ 1,535	\$ 6,683	\$ 5,621
Recoveries	(237)	(421)	(951)	(1,262)
Capitalized expenses	(714)	(482)	(2,652)	(1,953)
Net general and administrative expenses	\$ 836	\$ 632	\$ 3,080	\$ 2,406
Net general and administrative expenses (\$/boe)	\$ 2.32	\$ 2.17	\$ 2.16	\$ 2.07

Gross general and administration costs ("G&A") increased for the fourth quarter and the year in 2007 compared to the corresponding periods in 2006 due to increased staff levels and inflationary pressure on salaries. Unit G&A costs exceeded guidance in 2007 as production was slightly lower than anticipated and salary costs were higher than forecasted.

Depletion, Depreciation and Accretion

	Three months ended Dec. 31, 2007	Three months ended Dec. 31, 2006	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Depletion, depreciation and accretion (\$000's)	8,744	6,638	33,889	23,758
Depletion, depreciation and accretion (\$/boe)	\$ 24.23	\$ 22.81	\$ 23.81	\$ 20.43

Depletion, depreciation and accretion expense ("DD&A") per boe increased over the prior year as the cost of adding proved reserves over the past twelve months increased relative to historical levels.

Interest and Bank Charges

Interest and bank charges totaled \$2.0 million for the year and \$0.5 million for the fourth quarter of 2007 compared with \$1.1 million for the year and \$0.2 million for the fourth quarter of 2006. The increase in 2007 interest expense over the prior year resulted from increased average debt levels.

The Company has maintained a conservative level of leverage at year end with a net debt to annualized fourth quarter cash flow ratio of 1.0.

Stock-Based Compensation

Stock-based compensation expense remained consistent from 2006 to 2007 at \$1.2 million for the year and \$0.3 million for the fourth quarter.

Income Taxes

In the fourth quarter of 2007, the Company had an income tax recovery of \$0.5 million compared to income tax provision of \$0.3 million for the same period of 2006. On an annual basis the Company had an income tax recovery of \$0.4 million in 2007 as compared to an income tax provision of \$2.8 million in 2006. Lower natural gas prices and the recognition of an unrealized financial instrument loss together with higher DD&A expenses resulted in a net loss for both the year and the fourth quarter of 2007.

ProspEx has approximately \$147 million of income tax pools at December 31, 2007 and does not anticipate being cash taxable in 2008. As a result of the December 2007 flow-through share financing, ProspEx has committed to incur \$8.0 million in qualifying Canadian exploration expenditures by the end of 2008.

Capital Expenditures

(\$000's)	Three months ended	Three months ended	Year ended	Year ended
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Drilling and completions	\$6,264	\$ 15,987	\$26,718	\$ 46,893
Facilities	1,266	7,562	12,381	17,785
Land and lease	526	612	4,383	5,230
Seismic	320	922	2,416	1,603
Capitalized G&A	714	482	2,652	1,953
Property disposition	-	-	-	(10,842)
Other capital assets	3	18	160	269
Total capital expenditures	\$9,093	\$ 25,583	\$48,710	\$ 62,891

The Company invested \$9.1 million in capital expenditures during the fourth quarter of 2007 and \$48.7 million during the year, compared to \$25.6 million in the fourth quarter of 2006 and \$62.9 million for the full year 2006. Of the \$48.7 million in 2007 capital expenditures, \$12.1 million was spent in the Deep Basin, \$20.5 million in West Central Alberta and \$12.4 million in Southern Alberta. Spending was down in 2007 over the prior year as the Company executed a conservative capital spending program in response to weakening natural gas prices and uncertainty in the capital market.

The decrease in annual capital spending for 2007 compared with 2006 is primarily due to a reduction in capital spent on drilling and completions in 2007. In 2007 the Company incurred \$26.7 million in drilling and completion expenditures to drill 48 gross (26.3 net) wells, compared to \$46.9 million to drill 41 (23.2 net) wells in 2006. Although more net wells were drilled in 2007, a larger proportion of drilling was incurred in Southern Alberta, where the cost per well is lower.

During the final quarter of 2007 the Company's capital spending was focused on drilling and completions as \$6.3 million was spent to drill 16 gross (7.25 net) wells.

The Board of Directors has approved a capital budget of \$55 million in 2008, including the acquisition of Ricinus area assets that closed on January 22, 2008.

OIL & GAS RESERVES DATA

An independent evaluation of ProspEx's reserves at December 31, 2007 was conducted by GLJ Petroleum Consultants Ltd. ("GLJ") and prepared in accordance with the reporting guidelines of National Instrument 51-101 of the Canadian Securities Administrators ("NI 51-101"). Under NI 51-101, the "best estimate" for reserves is the Proved plus Probable ("P+P") category. In this category the Company's reserves increased by 9.9 billion cubic feet ("bcf") of natural gas and 14 thousand barrels ("mbbls") of oil and natural gas liquids ("NGL") for a total increase of 1,656 thousand of barrels of oil equivalent ("mboe") in the period January 1, 2007 to December 31, 2007. ProspEx had no acquisition or disposition activity that effected reserves in 2007, as the Company's acquisition of assets in the Ricinus area closed in January of 2008. The complete reserves disclosure as required under NI 51-101, will be contained in ProspEx's 2007 Annual Information Form, to be filed on SEDAR on or before March 31, 2008.

The Company replaced 161% of 2007 production through exploration and development activities on a Proved basis, and 216% of 2007 production on a P+P basis. Reserves growth over the year was 15% on a Proved basis and 20% on a P+P basis.

The Proved reserve life index at December 31, 2007, calculated using fourth quarter 2007 production on an annualized basis, was 4.6 years. The P+ P reserve life index was 6.9 years.

Reported reserves included a negative revision to reserves on a Proved basis of 278 mboe, and a negative revision of 778 mboe on a P+P basis. The largest revisions were at Ricinus and Harmattan in West Central Alberta. At Harmattan the negative revision was due to a reclassification of an oil pool to natural gas and at Ricinus the revision was due to lower than anticipated production performance from two wells.

Finding and development costs were \$26.01 per boe on a Proved basis and \$21.09 per boe on a P+P basis, including revisions and future development costs (there were no acquisitions or dispositions). ProspEx has made substantial improvement in finding and development cost performance over the past year. In 2006, finding and development costs were \$31.14 per boe on a Proved basis and \$37.87 per boe on a P+P basis, including revisions and future development costs (but not including acquisitions and dispositions).

Without revisions, but including future development costs, finding and development costs were \$23.19 per boe on a Proved basis and \$16.84 on a P+P basis, indicative of strong economic performance of the Company's capital program.

Finding and development costs in 2007 were substantially lower than in 2006 due to improved industry conditions and a focus on cost reduction. In 2008, the Company will continue to work towards reducing finding and development costs.

Recycle ratio is the ratio of operating netback to finding and development costs, and is a measure of the economic efficiency of the capital program. On a Proved basis a recycle ratio of 1.1 was achieved, with a recycle ratio of 1.4 on a Proved plus Probable basis.

Liquidity & Capital Resources

At December 31, 2007, ProspEx had the following resources available to fund its capital expenditure program.

		(\$000's)
Working capital deficiency	\$	(8,659)
Long-term debt		(28,846)
Bank facilities available		60,000
Total capital resources	\$	22,495

The Company anticipates that it will continue to have adequate liquidity to fund future working capital and its 2008 capital program of \$55 million, from operating cash flow and the capital resources listed in the table above.

Bank Debt

At December 31, 2007, the Company had a total credit facility of \$60.0 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.

In January 2008, the Company expanded its credit facility by \$5.0 million to bring the total credit facility to \$65.0 million.

Share Capital

As at December 31, 2007, ProspEx had 56,453,422 common shares, 2,716,145 warrants, 4,655,917 options and no special performance units issued and outstanding. Each warrant and option, upon exercise, entitles the holder to one common share.

As at March 14, 2008, ProspEx had 56,561,813 common shares, 2,607,754 warrants, 5,267,417 options and no special performance units issued and outstanding.

On December 13, 2007, the Company issued 2.2 million common shares on a flow-through basis at a price of \$3.70 per share for total gross proceeds of \$8.0 million. With this share offering ProspEx has committed to incur \$8.0 million in qualifying expenditures related to the flow-through share financing by December 31, 2008. Directors and Officers of the Company purchased a total of 15,600 of the flow-through shares for total proceeds of \$0.1 million.

Subsequent Events

On January 22, 2008, the Company acquired certain assets in the Ricinus area of Alberta. These assets consist of 16 (11.9 net) wells with current production of approximately 360 boe per day, along with associated gas gathering and field compression facilities. The consideration paid by the Company was \$11.6 million after closing adjustments. The purchase of these assets was financed from the Company's credit facility.

As noted under bank debt, in January 2008, the Company expanded its credit facility by \$5.0 million to bring the total credit facility to \$65.0 million.

Contractual Obligations

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

Payments due (\$000's)	2008	2009	2010	2011	Thereafter
Long-term debt	\$ -	28,846	-	-	-
Drilling rig contract	2,468	106	-	-	-
Building lease	384	32	-	-	-
Process fees	505	400	300	47	-
Transportation	934	181	-	-	-
Other	12	8	2	-	-
Total	\$ 4,303	29,573	302	47	-

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions.

Summary of Quarterly Results

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial (\$000's, except per share amounts)								
Oil and gas revenue	15,906	16,004	17,553	14,071	13,536	14,071	12,704	11,190
Net earnings (loss)	(180)	(1,352)	2,235	(1,794)	2,143	440	868	1,629
Per share - basic	0.00	(0.03)	0.04	(0.03)	0.04	0.01	0.02	0.03
- diluted	0.00	(0.03)	0.04	(0.03)	0.04	0.01	0.02	0.03
Average Daily Production								
Oil (bbls/d)	125	82	210	83	184	67	96	28
NGL (bbls/d)	515	548	513	290	276	515	287	212
Natural Gas (mcf/d)	<u>19,690</u>	<u>21,743</u>	<u>21,108</u>	<u>16,757</u>	<u>16,221</u>	<u>18,335</u>	<u>17,948</u>	<u>13,890</u>
Total (boe/d)	3,922	4,254	4,241	3,166	3,164	3,639	3,375	2,555
Operating Netbacks (\$/boe)								
Price ⁽¹⁾	44.09	40.89	45.48	49.38	46.50	42.03	41.37	48.66
Royalties	(5.41)	(7.79)	(3.97)	(9.85)	(7.16)	(8.46)	(7.12)	(8.36)
Operating Cost	(8.06)	(8.42)	(7.86)	(7.38)	(7.39)	(8.21)	(5.68)	(6.34)
Transportation Cost	<u>(0.86)</u>	<u>(0.89)</u>	<u>(1.01)</u>	<u>(1.03)</u>	<u>(0.96)</u>	<u>(0.98)</u>	<u>(1.07)</u>	<u>(0.83)</u>
Operating Netback	<u>29.76</u>	<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>

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

Oil and gas revenue trends are mainly impacted by realized commodity prices and production volumes. Oil and gas revenue grew in conjunction with production volumes during the first three quarters of 2006 and then held relatively flat until the second of 2007 as lower production was offset by strengthening prices. Revenue increased in the second quarter of 2007 due to increased production, but then declined due to decreases in netbacks and production.

Production growth over the last eight quarters is attributable to an active and successful exploration and development drilling program.

Net earnings or losses are affected by production volumes, operating netback, taxation rates, the risk management program and the Company's depletion charge which is a result of the Company's success in adding new proven oil and natural gas reserves.

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 disclosure, hedging and comprehensive income. These 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 they are designated as held-for-trading, in which case fair value is appropriate).

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 and are recorded at fair value at inception with unrealized gains or losses reflected in earnings.

Prior to the 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, which results in fair value measurement.

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.

Recent Accounting Pronouncements

On February 13, 2008 Canada's Accounting Standards Board announced their intention to converge Canadian GAAP with International Financial Reporting Standards, effective January 1, 2011. The Company continues to monitor and research the impact of this transition on financial position and earnings.

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 and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2007, that the Company's disclosure controls and procedures as at such date 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 that require commenting on in the MD&A.

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

ADVISORIES

Within the MD&A references are made to terms commonly used in the oil and gas industry. "Cash flow" is not defined by GAAP in Canada and is referred to as a non-GAAP measures. For the purposes hereof, "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.

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

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

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

Forward-looking Information

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

The reader is cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonable by ProspEx at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the foregoing list of assumptions, factors and risks is not exhaustive. Additional information on the foregoing assumptions, risks and other factors that could affect ProspEx's operations or financial results are included in ProspEx's public disclosure documents on file with Canadian securities regulatory authorities. In particular see the Risk Factors and Industry Conditions sections of ProspEx's most recent Annual Information Form. ProspEx's reports may be accessed through the SEDAR website (www.sedar.com), at ProspEx's website (www.psx.ca) or by contacting the Company directly. Consequently, there is no representation by ProspEx that actual results achieved will be the same in whole or in part as those set out in the forward-looking information.

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

ProspEx Resources Ltd.
Consolidated Unaudited Balance Sheets

As At December 31,
(Stated in thousands of dollars)
(unaudited)

	<u>2007</u>	<u>2006</u>
Assets		
Current assets		
Accounts receivable	\$ 12,900	\$ 13,220
Prepaid expenses	988	746
Unrealized financial instrument gain	214	3,081
Total assets	<u>14,102</u>	<u>17,047</u>
Property, plant and equipment, net	161,663	142,649
Asset held for resale (note 2)	-	937
Future income tax asset (note 3)	-	1,103
	<u>\$ 175,765</u>	<u>\$ 161,736</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,761	\$ 29,990
Long term debt (note 4)	28,846	16,766
Asset retirement obligation	5,201	4,157
Future income tax liability (note 3)	3,214	-
Total liabilities	<u>60,022</u>	<u>50,913</u>
Shareholders' Equity		
Share capital (note 5)	92,204	87,459
Contributed surplus (note 5)	5,614	4,348
Retained earnings	17,925	19,016
Total shareholders' equity	<u>115,743</u>	<u>110,823</u>
	<u>\$ 175,765</u>	<u>\$ 161,736</u>

Subsequent events (note 8)

See accompanying notes to consolidated unaudited financial statements for the fourth quarter of 2007.

ProspEx Resources Ltd.

Consolidated Statements of Earnings (Loss), Comprehensive Earnings (Loss) and Retained Earnings

(\$000's, except per share amounts)	For the Three Months Ended December 31, 2007 (unaudited)	For the Three Months Ended December 31, 2006 (unaudited)	For the Year Ended December 31, 2007 (audited)	For the Year Ended December 31, 2006 (audited)
Revenue				
Oil and gas	\$ 15,906	\$ 13,536	\$ 63,534	\$ 51,501
Unrealized financial instrument gain (loss)	(991)	1,213	(2,867)	3,132
Royalties	(1,952)	(2,083)	(9,343)	(9,024)
	<u>12,963</u>	<u>12,666</u>	<u>51,324</u>	<u>45,609</u>
Expenses				
Depletion, depreciation and accretion	8,744	6,638	33,889	23,758
Operating	2,907	2,152	11,341	8,104
Transportation	311	281	1,343	1,129
General and administrative	836	632	3,080	2,406
Interest and bank charges	505	176	2,047	1,133
Stock-based compensation	328	321	1,156	1,181
	<u>13,631</u>	<u>10,200</u>	<u>52,856</u>	<u>37,711</u>
Earnings (loss) before income taxes	<u>(668)</u>	<u>2,466</u>	<u>(1,532)</u>	<u>7,898</u>
Income Tax (note 3)				
Current expense	-	-	-	20
Future expense (reduction)	(488)	323	(441)	2,798
	<u>(488)</u>	<u>323</u>	<u>(441)</u>	<u>2,818</u>
Net earnings (loss) and comprehensive earnings (loss) for the period	<u>(180)</u>	<u>2,143</u>	<u>(1,091)</u>	<u>5,080</u>
Retained earnings, beginning of period	<u>18,105</u>	<u>16,873</u>	<u>19,016</u>	<u>13,936</u>
Retained earnings, end of year	<u>\$ 17,925</u>	<u>\$ 19,016</u>	<u>\$ 17,925</u>	<u>\$ 19,016</u>
Net earnings (loss) per share				
Basic	<u>\$ 0.00</u>	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ 0.10</u>

See accompanying notes to consolidated unaudited financial statements for the fourth quarter of 2007.

ProspEx Resources Ltd.
Consolidated Statements of Cash Flows

(\$000's)	For the Three Months Ended December 31, 2007 (unaudited)	For the Three Months Ended December 31, 2006 (unaudited)	For the Year Ended December 31, 2007 (audited)	For the Year Ended December 31, 2006 (audited)
Operations				
Net earnings (loss) for the period	\$ (180)	\$ 2,143	\$ (1,091)	\$ 5,080
Items not involving cash				
Depletion, depreciation and accretion	8,744	6,638	33,889	23,758
Stock-based compensation	328	321	1,156	1,181
Unrealized financial instrument (gain) loss	991	(1,243)	2,867	(3,131)
Future income taxes (reduction)	(488)	323	(441)	2,798
Asset retirement expenditures	(32)	(541)	(383)	(1,724)
	<u>9,363</u>	<u>7,641</u>	<u>35,997</u>	<u>27,962</u>
Changes in non-cash working capital	<u>(726)</u>	<u>161</u>	<u>(901)</u>	<u>(3,874)</u>
	<u>8,637</u>	<u>7,802</u>	<u>35,096</u>	<u>24,088</u>
Financing				
Issuance of common shares	7,682	14,456	8,020	21,045
(Decrease) increase in long-term debt	(3,620)	2,987	12,080	15,713
	<u>4,062</u>	<u>17,443</u>	<u>20,100</u>	<u>36,758</u>
Investing				
Exploration and development expenditures	(9,090)	(25,565)	(48,550)	(73,464)
Deposit on property acquisition (note 8)	(1,175)	-	(1,175)	-
Expenditures on asset held for resale	-	(937)	937	(937)
Proceeds of property disposition	-	-	-	10,842
Other capital expenditures	(3)	(18)	(160)	(269)
	<u>(10,268)</u>	<u>(26,520)</u>	<u>(48,948)</u>	<u>(63,828)</u>
Changes in non-cash working capital	<u>(2,431)</u>	<u>1,275</u>	<u>(6,248)</u>	<u>2,982</u>
	<u>(12,699)</u>	<u>(25,245)</u>	<u>(55,196)</u>	<u>(60,846)</u>
Change in cash	-	-	-	-
Cash, beginning of period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to consolidated unaudited financial statements for the fourth quarter of 2007.

Notes to Unaudited Consolidated Financial Statements

For the three months and year ended December 31, 2007
(unaudited)

The interim unaudited consolidated financial statements of ProspEx Resources Ltd. ("the Company" 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.

ProspEx was incorporated on August 13, 2004 and commenced operations on October 1, 2004 when certain assets of Esprit Exploration Ltd. ("Esprit") were transferred to ProspEx under a Plan of Arrangement (the "Plan of Arrangement"). The Plan of Arrangement resulted in, amongst other matters, Esprit shareholders becoming shareholders of ProspEx. ProspEx is engaged in the acquisition, exploration, development and production of oil and natural gas in Canada.

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 they are designated as held-for-trading, in which case fair value is appropriate).

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 and are recorded at fair value at inception with unrealized gains or losses reflected in earnings.

Prior to the 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, which results in fair value measurement.

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

At December 31, 2006, the Company had \$0.9 million of equipment assembled that it intended to sell. The Company no longer intends 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 (loss) before income taxes. The reasons for these differences are as follows:

(\$000's)	Three months ended December 31, 2007	Three months ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006
Earnings (loss) before taxes	\$ (180)	\$ 2,466	\$ (1,532)	\$ 7,898
Rate (%)	32.12	34.50	32.12	34.50
Computed expected provision (reduction) for future income taxes	(58)	851	(492)	2,725
Increase (decrease) in taxes resulting from:				
Non-deductible crown payments	-	217	-	835
Resource allowance	-	(239)	-	(914)
Stock-based compensation	105	111	371	407
Effect of change in tax rate	(535)	(216)	(458)	91
Alberta royalty deduction pool additions	-	(251)	-	(251)
Other	-	(150)	138	(95)
	(488)	323	(441)	2,798
Capital taxes	-	-	-	20
Income tax expense (reduction)	\$ (488)	\$ 323	\$ (441)	\$ 2,818

The components of the future income tax asset at December 31, are as follows:

(\$000's)	2007	2006
Tax assets:		
Property, plant and equipment	\$ (3,744)	\$ 1,482
Asset retirement obligation	509	533
Share issue costs	590	578
Unrealized financial instrument gain	(69)	(990)
	(2,714)	1,603
Valuation allowance	(500)	(500)
Future income tax asset (liability)	\$ (3,214)	\$ 1,103

At December 31, 2007, the Company had estimated tax pools available to reduce future taxable income of \$147.0 million (2006 – \$149.7 million). ProspEx has committed to incur \$8.0 million in qualifying expenditures related to the December 2007 flow-through share issuance by December 31, 2008.

4. LONG-TERM DEBT

At December 31, 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 full 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. SHARE CAPITAL

(a) Common Shares & Common Share Performance Warrants Issued

	2007		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 year	53,790	\$ 85,681	48,932	\$ 65,214
Issued on exercise of options	72	243	22	71
Flow-through shares issued – May 5, 2006	-	-	1,220	7,015
Flow-through shares issued – November 1, 2006	-	-	1,400	7,560
Flow-through shares issued – December 13, 2007	2,170	8,029	-	-
Shares issued – November 1, 2006	-	-	1,800	7,560
Flow-through shares tax adjustment	-	(4,461)	-	(2,047)
Shares issued under special performance unit plan	252	3	294	3
Shares issued on exercise of warrants	169	353	122	245
Issue costs, net of future tax reduction	-	(351)	-	(905)
Stock options exercised	-	1,046	-	965
Balance at the end of the year	56,453	\$ 90,543	53,790	\$ 85,681
Common share performance warrants				
Balance at the beginning of the year	2,908	\$ 1,778	3,032	\$ 1,853
Exercised	(169)	(104)	(122)	(75)
Cancelled	(23)	(13)	(2)	-
Balance at the end of the year	2,716	1,661	2,908	1,778
Share Capital at end of year		\$ 92,204		\$ 87,459

On December 13, 2007, ProspEx issued 2,170,000 common shares on a flow-through basis at a price of \$3.70 per share for total gross proceeds of \$8.0 million. ProspEx has committed to incur \$8.0 million in qualifying expenditures by December 31, 2008. Three officers of the Company, of which one is also a director, purchased a total of 15,600 of the flow-through shares for total proceeds of \$57,720.

(b) Contributed Surplus

(\$000's)		2007	2006
Balance at the beginning of the year	\$	4,348	\$ 2,951
Stock-based compensation		2,312	2,362
Exercise of stock options & special performance units		(1,046)	(965)
Balance at the end of the year	\$	5,614	\$ 4,348

(c) Stock Options and Special Performance Units

Changes in outstanding stock options during the years ended December 31, 2007 and 2006 are summarized below:

	2007		2006	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding at beginning of year	3,354	\$ 3.49	2,314	\$ 3.27
Granted	1,725	3.96	1,096	3.93
Exercised	(72)	3.38	(22)	3.22
Cancelled	(351)	4.06	(34)	3.37
Outstanding at end of year	4,656	\$ 3.62	3,354	\$ 3.49

Changes in special performance units during the years ended December 31, 2007 and 2006 are as follows:

(000s)	2007	2006
Outstanding at beginning of year	436	872
Exercised	(406)	(436)
Cancelled	(30)	-
Outstanding at end of year	-	436

The fair value of each stock option and special performance unit granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants as follows:

	2007	2006
Risk free interest rate	4%	4%
Expected life	5 years	5 years
Expected volatility	44%	46%
Expected dividend yield	Nil	Nil

The estimated fair values of the options and the special performance units are being amortized to expense over the vesting period. \$1.2 million (2006 - \$1.2 million) of stock and unit-based compensation was recorded against income and \$1.2 million was capitalized in both 2007 and 2006.

(d) Per Share Amounts

In computing diluted net earnings per share for the year ended December 31, 2007, 2,223,429 (2006 – 2,625,929) common shares were added to the weighted average number of common shares outstanding of 54,094,873 (2006 – 50,378,377). A total of 4,655,917 (2006 – 1,096,500) options were excluded from the diluted calculations as they were not dilutive. For the quarter ended December 31, 2007, 1,473,335 common shares (2006 – 2,636,406) were added to the weighted average number of common shares outstanding of 54,686,979 (2006 – 52,627,783) and 2,871,729 (2006 – 1,096,500) options were excluded from the diluted calculations, as they were not dilutive.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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. In 2007, realized gains on physical and financial swap contracts of \$0.8 million (2006 - \$1.2 million) for the quarter ended and \$3.1 million (2006 - \$2.2 million) for the year ended December 31, 2007 were recorded. Financial instruments and physical contracts in place at December 31, 2007 are summarized below.

<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Price</u>	<u>Type</u>
Collar	2,500 GJ/d	November 1, 2007 – March 31, 2008	\$7.00 - \$8.40 at AECO (\$Cdn/GJ)	Physical
Collar	2,500 mmbtu/d	November 1, 2007 – March 31, 2008	\$6.76 - \$8.40 at AECO (\$USD/mmbtu)	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 December 31, 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 December 31, 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 long-term debt approximate their carrying values.

Subsequent to the quarter the Company entered into the following contracts:

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

7. ADDITIONAL DISCLOSURES

Net cash interest paid during the year was \$2.7 million (2006 – \$1.4 million) and interest paid during the quarter was \$0.9 million (2006 - \$0.3 million). Cash taxes paid during the year was \$nil (2006 – \$nil) and during the quarter was \$nil.

8. SUBSEQUENT EVENTS

On January 22, 2008, the Company acquired certain assets in the Ricinus area of Alberta. These assets consist of 16 (11.9 net) wells with current production of approximately 360 boe per day, along with associated gas gathering and field compression facilities. The consideration paid by the Company was \$11.6 million after closing adjustments. The purchase of these assets was financed from the Company's credit facility. At December 31, 2007 a deposit of \$1.2 million was outstanding that related to this purchase.

In January 2008, the Company expanded its credit facility by \$5.0 million to bring the total credit facility to \$65.0 million.

9. RECLASSIFICATION

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

Contact Information

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