ProspEx Announces 2008 First Quarter Results and Capital Budget Expansion

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

CALGARY, May 8, 2008 / CNW / - ProspEx Resources Ltd. ("ProspEx" or the "Company") is pleased to provide its financial and operating results for the three month period ended March 31, 2008.

"ProspEx enjoyed a successful winter program, with over 1,000 barrels of oil equivalent per day of new production brought on stream recently," said John Rossall, President and Chief Executive Officer. "I believe that these significant exploration discoveries, coupled with cost effective execution, are leading to lower finding and development costs in 2008."

HIGHLIGHTS

- In the first quarter, ProspEx executed a successful capital program with significant exploration discoveries in the Deep Basin and Edson. These discoveries create follow-up opportunities for ProspEx in the second half of 2008 and into 2009.
- Over 1,000 barrels of oil equivalent ("boe") per day of new initial production has been brought on stream as a result of the winter program and completion of pipeline connections for wells drilled in Harmattan in 2007. Estimated Company total production reached the 4,500 boe per day level in mid-April (net of the Granum asset disposition described below).
- Production for the first quarter of 2008 was 3,781 boe per day, 4% less than the prior quarter, and 19% higher than the first quarter of 2007.
- The Board of Directors of ProspEx has approved a $10 million expansion of the Company's 2008 capital budget to $65 million. The incremental capital will be used to fund follow-up drilling from winter exploration successes, as well as to fund additional land and seismic expenditures.
- In late January, ProspEx closed the previously announced acquisition of certain assets in the Ricinus area of Alberta with production of approximately 360 boe per day for $11.5 million after closing adjustments.
- The Company has also entered into an agreement to divest certain non-operated natural gas assets in the Granum area. These assets consist of five (1.0 net) producing wells with current production of approximately 110 boe per day. The disposition has an effective date of April 1, 2008, with closing expected to occur on or about May 13, 2008. The consideration to be received by ProspEx under the agreement is $5.6 million, subject to normal closing adjustments.
- Cash flow before changes in non-cash working capital items for the quarter was $9.2 million, an increase of 22% compared to the prior year due to higher production levels. Cash flow was unchanged from the prior quarter, as production levels and operating netbacks were essentially unchanged.
- The Company showed a loss of $2.1 million in the first quarter, primarily due to a $4.5 million mark to market loss on financial instruments, as natural gas prices have increased significantly compared to the pricing of financial instruments put in place earlier this year.
- Net debt at quarter end was $55.8 million, excluding after tax unrealized financial instrument losses, reflecting the execution of the Company's winter drilling program and the acquisition of the Ricinus assets.

OPERATIONAL REVIEW

Capital Program

Capital expenditures were $28.9 million during the first quarter of 2008, including the Ricinus acquisition ($11.5 million). During the quarter, the Company incurred $10.0 million in drilling and completion costs, $4.7 million in facilities costs, and $2.6 million in land, seismic and capitalized G&A expenditures.

In the first quarter of 2008, ProspEx drilled seven (3.8 net) wells with an 89% net success rate. At Kakwa in the Deep Basin, three (1.8 net) wells were drilled. Two of these wells are now on stream and producing at an aggregate net rate of approximately 500 boe per day, with the third well cased and awaiting completion after spring break-up.

In West Central Alberta, pipeline facilities were constructed at Harmattan to bring three (3.0 net) wells drilled in 2007 on production. These wells came on stream in early April, with initial production in excess of 500 boe per day. These wells are currently shut in due to a scheduled maintenance shut down at the Harmattan plant, but production is expected to resume in the next week. Drilling activity in Harmattan was curtailed by the early onset of spring break-up, however well sites have been constructed for two (1.5 net) wells which are scheduled to be drilled as soon as surface conditions permit in the second quarter of 2008. One well was drilled at Ricinus in West Central Alberta in the first quarter, pursuant to a farm-in agreement. This well was tied in and is producing at an initial rate of about 200 boe per day (150 boe per day net to ProspEx).

At Edson, the 8-13-54-19W5 well (ProspEx 35% working interest) was successfully drilled and production tested in the Devonian Wabamun formation during the first quarter. The well flowed high pressure sour gas (14.4% H_2S) at controlled rates of up to 7 million cubic feet ("mmcf") per day, with no water and minor condensate. Tie-in operations are expected to proceed consistent with previously acquired regulatory approvals. Additional drilling in the second half of 2008 is planned (pending regulatory approval) to follow-up on this discovery.

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

In Southern Alberta, one (0.25 net) successful well was drilled at Medallion, and one (0.4 net) well was drilled at Granum in which ProspEx elected not to participate in casing operations. Subsequent to quarter end, a well (0.4 net) was drilled at Granum and cased for uphole potential.

Subsequent to the quarter end, the Company entered into an agreement to divest certain non-operated natural gas assets in the Granum area. These assets consist of five (1.0 net) producing wells with current production of approximately 110 boe per day, and 2,660 net acres of undeveloped land. The disposition has an effective date of April 1, 2008, with closing expected to occur on or about May 13, 2008. The consideration to be received by ProspEx under the agreement is $5.6 million, subject to normal closing adjustments. The reserves associated with the assets to be divested were evaluated by GLJ Petroleum Consultants Ltd. ("GLJ"), effective December 31, 2007 and mechanically updated to the April 1, 2008 effective date. According to that GLJ evaluation, the Proved plus Probable reserves as of April 1, 2008 were estimated to be 384 thousand boe.

Production

Production (boe/d)	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Southern Alberta	1,109	1,134	1,190	1,122	1,162
West Central	1,237	1,305	1,466	1,397	1,167
Deep Basin	1,425	1,472	1,589	1,713	823
Other	10	11	9	9	14
Total	3,781	3,922	4,254	4,241	3,166

Production for the first quarter of 2008 was 3,781 boe per day, 4% less than the prior quarter, and 19% higher than the first quarter of 2007. At Medallion, approximately 80 boe per day of anticipated production was not produced during the first quarter due to operational problems and cold weather. Approximately 50 boe per day of net production was shut in at Ricinus pending receipt of a regulatory "good production practice" approval, which has since been received. More importantly, the Company elected to reduce its level of capital spending in the fourth quarter of 2007 due to low natural gas prices. Consequently, new production additions in the fourth quarter of 2007 and first quarter of 2008 did not offset production declines and thus overall production was flat to modestly decreasing over that period.

With the completion of the Company's winter capital program as described above, the estimated Company total production reached the 4,500 boe per day level in mid-April (net of the disposition of Granum assets), prior to the shut down of the Harmattan plant for scheduled maintenance. The Harmattan wells are expected to be back on stream in the next week. With the Harmattan downtime and Granum disposition taken into account, production for the second quarter is expected to average 4,200 to 4,400 boe per day.

2008 Guidance Summary

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

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

The Company's total capital budget, including acquisition expenditures and disposition proceeds, has been increased to $65 million. The funds from this budget increase will be allocated to follow-up drilling on the Company's winter exploration successes as well as incremental land and seismic expenditures.

Annual average production guidance for the year is unchanged, despite the disposition of 110 boe per day of production in Granum effective April 1, 2008.

Operating costs for the quarter were $10.17 per boe, exceeding the Company's 2008 annual average guidance of $8.00 per boe. Operating costs were high due to a number of extraordinary items, including upgrading of the instrumentation and metering of acquired assets at Ricinus; operational issues at the Medallion compressor and dehydration facility; and operations at Salter relating to the new horizontal well and a workover at the existing Salter vertical well. ProspEx expects that operating costs for the remainder of 2008 will average $8.00 per boe, consistent with prior guidance, but is revising the annual average operating cost guidance to $8.50 per boe to include the effect of higher first quarter costs.

Guidance with respect to G&A expenses ($2.15 per boe) and royalties (20% of revenue) remain unchanged.

Net debt at quarter end was $55.8 million, excluding after tax unrealized financial instrument losses, reflecting the execution of the Company's winter drilling program and the acquisition of the Ricinus assets. Net debt is expected to be reduced through the second quarter as cash flow is anticipated to exceed capital spending over the spring break-up period. Guidance regarding anticipated net debt and cash flow may constitute "financial outlooks" as contemplated by National Instrument 51-102 of the Canadian Securities Administrators entitled *Disclosure Obligations* ("NI 51-102"). The purpose of such financial outlooks is to forecast the anticipated financial position of the Company at the end of the second quarter of 2008. Please be advised that the information may not be appropriate for other purposes.

Reader's Advisory

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

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

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

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. The total Proved plus Probable Reserves of the Company were estimated by GLJ effective as of December 31, 2007 as 9,913 mboe.

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 or dispositions; increases in debt service charges; the loss of key personnel; the marketability of production; defaults by third party operators; unforeseen title defects; fluctuations in foreign currency and exchange rates; inadequate insurance coverage; compliance with environmental laws and regulations; changes in tax and royalty laws; the Company's ability to access external sources of debt and equity capital; and the Company's ability to obtain equipment in a timely manner to carry out development activities. Further information regarding these factors may be found under the headings *"Risk Factors"* and *"Industry Conditions"* in the Company's most recent Annual Information Form, under the heading *"Business Risks"* in the Company's Management's Discussion and Analysis for the year ended December 31, 2007, and in the Company's most recent consolidated financial statements, management information circular, quarterly reports, material change reports and news releases available under the Company's profile on SEDAR (www.sedar.com). Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should also carefully consider information set forth in the section "Forward-Looking Information" of the Company's most recent Annual Information Form respecting the assumptions upon which the Company bases certain forward-looking information and the uncertainties inherent in such assumptions.

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

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

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 three months ended

(unaudited)	March 31, 2008	March 31, 2007
FINANCIAL ($000's)		
Oil and gas revenue	17,378	14,071
Net earnings (loss)	(2,110)	(1,794)
Cash flow (1)	9,181	7,533
Total assets	196,187	170,033
Total net debt (2)	55,797	43,948
Net earnings (loss) per share ($ per share)		
Basic	(0.04)	(0.03)
Diluted	(0.04)	(0.03)
Cash flow per share ($ per share) (1)		
Basic	0.16	0.14
Diluted	0.16	0.13
Weighted average common shares (000's)		
Basic	56,545	53,807
Diluted	58,091	56,297
PRODUCTION VOLUMES		
Natural gas (mcf/d)	19,064	16,757
Natural gas liquids (bbls/d)	536	290
Crude oil (bbls/d)	68	83
Total (boe/d)	3,781	3,166
SALES PRICES		
Natural gas ($/mcf)	7.98	8.19
Natural gas liquids ($/bbl)	60.47	48.51
Crude oil ($/bbl)	95.44	59.69
Total ($/boe)	50.50	49.38
NETBACKS ($/boe)		
Price	50.50	49.38
Unrealized financial instrument	(13.13)	(11.34)
Royalties	(8.57)	(9.85)
Operating costs	(10.17)	(7.38)
Transportation	(0.96)	(1.03)
General and administrative	(2.53)	(2.24)
Total	15.14	17.54
CAPITAL ($000's)		
Drilling and completions	10,051	9,317
Facilities	4,712	5,931
Land and lease	1,559	2,188
Seismic	264	704
Capitalized general and administrative	797	516
Property acquisitions	11,498	-
Office and computer assets	60	74
Total	28,941	18,730

(1) Cash flow is defined as cash flow from operations before changes in non-cash working capital.
(2) Total net debt is defined as long term debt less working capital (or plus working capital deficiency) excluding unrealized financial instrument gain (loss) and associated future tax assets (liabilities).

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

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the financial and operating results of ProspEx Resources Ltd. ("ProspEx" or the "Company") as well as a prospective view of the Company's activities. The MD&A is for the three months ended March 31, 2008, and was prepared as at May 8, 2008. The MD&A should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2007 together with the notes related thereto. The reader should be aware that historical results are not necessarily indicative of future performance.

RESULTS OF OPERATIONS

The first quarter of 2008 was highlighted by improved business results and operational conditions. Natural gas prices strengthened 16% to $7.98 per million cubic feet ("mcf") from the final quarter of 2007. As well, the Company executed a successful drilling program, drilling seven (3.8 net) wells with an 89% net success rate.

Net Earnings (Loss) and Cash Flow

Cash flow for the first quarter of 2008 was $9.2 million, an increase of 22% from the same period of 2007, driven by a 19% increase in production volumes.

During the first quarter of 2008, the Company reported a net loss of $2.1 million due to an unrealized financial instrument loss of $4.5 million. The unrealized financial instrument loss was created when natural gas prices strengthened relative to the financial instruments the Company has in place.

The net loss of $2.1 million is slightly greater than the $1.8 million loss recorded in the first quarter of 2007. The increase in net loss occurred due to the unrealized financial instrument loss as well as higher operating costs, partially offset by higher revenues.

Revenue

($000's)	Three months ended March 31, 2008	Three months ended March 31, 2007
Natural gas	$ 13,739	$ 11,630
Realized gain on financial instruments	100	729
Total natural gas	13,839	12,359
Oil	587	447
Natural gas liquids	2,952	1,265
Oil and gas revenue	17,378	14,071
Unrealized financial instrument loss	(4,519)	(3,230)
Total revenue	$ 12,859	$ 10,841

Oil and gas revenue increased $3.3 million or 24% from the first quarter of 2007, to $17.4 million in the first quarter of 2008, consistent with production growth of 19% over the same period. The Company experienced significant increases in NGL revenues as a result of new liquids rich production in the Deep Basin. First quarter total revenue increased to $12.9 million or 19% from 2007 to 2008 due to the reasons mentioned above, partially offset by an increase in the unrealized financial instrument losses of $1.3 million.

Production

	Three months ended March 31, 2008	Three months ended March 31, 2007
Area (boe/d)		
Deep Basin	1,425	823
West Central	1,237	1,167
Southern Alberta	1,109	1,162
Other Areas	10	14
	3,781	3,166
Product		
Natural gas (mcf/d)	19,064	16,757
Natural gas liquids (bbls/d)	536	290
Oil (bbls/d)	68	83
Total (boe/d)	3,781	3,166

Production for the first quarter of the year averaged 3,781 barrels of oil equivalent ("boe") per day, an increase of 19% over the prior year of 3,166 boe per day. Production growth was mainly attributable to the Deep Basin area where the Company experienced exploration success in Wapiti. The slight increase in production in West Central Alberta was offset by natural declines in Southern Alberta.

ProspEx's overall production mix for the first quarter of 2008 was 84% natural gas with the remaining 16% being natural gas liquids and oil. Natural gas as a percentage of total production is down from 88% in the first quarter of 2007, due to the growth of NGL production from the Deep Basin area.

Commodity Pricing

ProspEx Average Prices	Three months ended March 31, 2008	Three months ended March 31, 2007
Natural gas ($/mcf)		
Sales price	$ 7.92	$ 7.71
Realized gain on financial instrument	0.06	0.48
Average realized natural gas price	7.98	8.19
Oil ($/bbl)	95.44	59.69
NGL ($/bbl)	60.47	48.51
Average realized price ($/boe)	50.50	49.38
Unrealized financial instrument loss ($/boe)	(13.13)	(11.34)
Total average price ($/boe)	$ 37.37	$ 38.04

Benchmark pricing	Three months ended March 31, 2008	Three months ended March31, 2007
AECO C Spot ($/mcf)	$ 7.90	$ 7.40
Edmonton Par – light oil ($/bbl)	$ 97.50	$ 67.09

Average natural gas sales prices were $7.92 per mcf in the first quarter of 2008, compared to $7.71 per mcf in the first quarter of 2007.

During the first quarter of 2008, AECO C spot prices for natural gas increased by 7% compared to the first quarter of 2007. In comparison, the Company's sales price increased by only 3%, as a significant portion of gas was sold at the AECO monthly index which decreased by 4% compared to the first quarter of 2007.

Realized natural gas prices for the first quarter of 2008 averaged $7.98 per mcf, down 3% from $8.19 per mcf realized in the first quarter of 2007. This decrease resulted from lower realized financial instrument gains in the first quarter of 2008, as natural gas prices strengthened relative to the financial instrument collars in place during the quarter.

The price realized for NGLs in the first quarter of 2008 was $60.47 per barrel ("bbl"), an increase of 25% or $11.96 per bbl over the first quarter of 2007. NGL prices did not reflect the increase in the 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. For the quarter ended March 31, 2008, the Company's risk management program resulted in a net realized gain of $0.1 million compared to $0.7 million for the same period in 2007.

The fair values of unsettled financial instruments are recorded as a current asset or liability with the change in the fair value recorded as an unrealized gain or loss in the statements of earnings. As a result, changes in the fair value of financial instruments due to fluctuating forward natural gas prices and the purchase or expiration of financial contracts can lead to volatility in net earnings for the period. The financial instruments open as of March 31, 2008 are described in detail in the financial instruments and risk management note to the consolidated financial statements (note 5). The fair value of open financial instruments at March 31, 2008 was a liability of $4.3 million compared to an asset of $0.2 million at March 31, 2007. The impact of the changes in the fair values of open financial instruments was a loss of $4.5 million for the period ended March 31, 2008, compared to a loss of $3.2 million for the comparative period in 2007.

Royalty Expense

($000's)	Three months ended March 31, 2008	Three months ended March 31, 2007
Crown	$ 2,665	$ 2,221
Freehold and GORR	285	586
Total Royalties	$ 2,950	$ 2,807
$ per boe	$ 8.57	$ 9.85
As a percentage of oil and gas revenue	17%	20%

In the first quarter of 2008, royalties as a percentage of oil and gas revenue decreased compared to the first quarter of 2007 due to lower freehold royalty expense.

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.

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

Operating Costs

	Three months ended March 31, 2008	Three months ended March 31, 2007
Operating costs ($000's)	$ 3,500	$ 2,103
Operating costs ($/boe)	$ 10.17	$ 7.38

First quarter 2008 operating costs were $3.5 million or $10.17 per boe, and have risen from $2.1 million or $7.38 per boe in the first quarter of 2007. Higher operating costs were incurred during the quarter as a result of additional spending required to integrate newly acquired properties, the cost to address operational issues in the Medallion area, increased costs at Salter and costs incurred to accommodate production growth.

Operating costs per boe were above annual 2008 guidance of $8.00 due to the one time costs described above. ProspEx expects that operating costs for the remainder of 2008 will average $8.00 per boe, consistent with prior guidance, but is revising the annual average operating cost guidance to $8.50 per boe to include the effect of higher first quarter costs.

Transportation Expenses

	Three months ended March 31, 2008	Three months ended March 31, 2007
Transportation expenses ($000's)	$ 332	$ 295
Transportation expenses ($/boe)	$ 0.96	$ 1.03

Transportation expense per boe is down in the first quarter of 2008 compared to the same period of 2007 reflecting higher utilization of firm transportation contracts.

General and Administrative Expenses

($000's)	Three months ended March 31, 2008	Three months ended March 31, 2007
Gross general and administrative	$ 1,935	$ 1,510
Recoveries	(269)	(355)
Capitalized expenses	(797)	(516)
Net general and administrative expenses	$ 869	$ 639
Net general and administrative expenses ($/boe)	$ 2.53	$ 2.24

Gross general and administrative costs increased by $0.4 million for the quarter ended March 31, 2008 compared to the same period in 2007, due to increased staff levels. Cost per boe exceeded annual guidance of $2.15 per boe but are expected to reach guidance levels with anticipated production growth over the remainder of the year.

Interest and Bank Charges

Interest and bank charges of $0.5 million in the first quarter of 2008 were essentially unchanged from the prior year amount of $0.4 million.

Depletion, Depreciation and Accretion

	Three months ended March 31, 2008	Three months ended March 31, 2007
Depletion, depreciation and accretion ($000's)	$ 7,375	$ 6,797
Depletion, depreciation and accretion ($/boe)	$ 21.43	$ 23.85

Depletion, depreciation and accretion expense per boe in the first quarter of 2008 decreased from the comparable period in 2007 as the cost of adding proven reserves in the quarter were at a lower rate than the Company's historical average.

Stock-Based Compensation

Consistent with costs incurred in the first quarter of 2007, net stock-based compensation costs were $0.2 million.

Income Taxes

In the first quarter of 2008, the Company's future income taxes resulted in a recovery of $0.8 million, compared to a recovery of $0.6 million in the first quarter of 2007.

ProspEx has approximately $159 million of income tax pools at March 31, 2008 (March 31, 2007 - $146 million).

ProspEx has committed to incur $8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by the end of 2008. The Company estimates that $7.0 million of this commitment has been expended to March 31, 2008.

Capital Expenditures

Capital expenditures including property acquisitions were $28.9 million during the first quarter of 2008, compared to $18.7 million in the first quarter of 2007. Details of these expenditures for the period ended March 31, were as follows:

($000's)	Three months ended March 31, 2008	Three months ended March 31, 2007
Drilling and completions	$ 10,051	$ 9,317
Facilities	4,712	5,931
Land and lease	1,559	2,188
Seismic	264	704
Capitalized G&A	797	516
Property acquisitions	11,498	-
Other capital assets	60	74
Total capital expenditures	$ 28,941	$ 18,730

Of the $28.9 million in expenditures, $11.5 million related to the acquisition of certain assets in the Ricinus (West Central Alberta) area. These assets included 16 (11.9 net) wells and associated gas gathering and field compression facilities. Of the remaining $17.4 million invested in capital expenditures, $7.0 million was spent in the Deep Basin, $5.1 million in West Central Alberta, $3.1 million on high impact plays and $2.1 million in Southern Alberta.

In the first quarter of 2008, $10.0 million was spent to drill seven (3.8 net) wells with an 89% net success rate.

The Board of Directors has approved an increase in the Company's capital budget to $65 million for 2008, including the Ricinus acquisition and Granum disposition.

Liquidity & Capital Resources

At March 31, 2008, ProspEx had the following resources available to fund its capital expenditure program.

	($000's)
Working capital deficiency	$ (19,407)
Long-term debt	(39,425)
Bank facilities available	65,000
Total capital resources	$ 6,168

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

Bank Debt

At March 31, 2008, the Company had a total credit facility of $65 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.

Share Capital

As at March 31, 2008, ProspEx had 56,849,312 common shares, 2,320,255 warrants, and 5,267,417 options issued and outstanding. Each warrant and option, upon exercise, entitles the holder to one common share.

As at May 8, 2008, ProspEx had 57,101,711 common shares, 2,299,720 warrants, and 5,035,553 options issued and outstanding.

Subsequent events

The Company signed an agreement effective April 1, 2008 to dispose of non-operated oil and gas properties in the Granum area of Southern Alberta for a sale price of $5.6 million, subject to normal closing adjustments. The disposition is expected to close May 13, 2008. It is anticipated that proceeds from this property disposition will be directed to exploration and development in West Central Alberta and the Deep Basin.

Contractual Obligations

ProspEx has committed to incur $8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by December 31, 2008. The Company estimates that $7.0 million of this commitment has been expended to March 31, 2008.

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	$ -	39,425	-	-	-
Building lease	288	32	-	-	-
Drilling rig contract	1,565	106	-	-	-
Process fees	379	400	300	47	-
Transportation	775	514	75	-	-
Other	8	8	2	-	-
Total	$ 3,015	40,485	377	47	-

Off-Balance Sheet Arrangements

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

Summary of Quarterly Results

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

	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial ($000's, except per share amounts)								
Oil and gas revenue	17,378	15,906	16,004	17,553	14,071	13,536	14,071	12,704
Net earnings (loss)	(2,110)	(180)	(1,352)	2,235	(1,794)	2,143	440	868
Per share - basic	(0.04)	0.00	(0.03)	0.04	(0.03)	0.04	0.01	0.02
- diluted	(0.04)	0.00	(0.03)	0.04	(0.03)	0.04	0.01	0.02
Average Daily Production								
Oil (bbls/d)	68	125	82	210	83	184	67	96
NGL (bbls/d)	536	515	548	513	290	276	515	287
Natural Gas (mcf/d)	19,064	19,690	21,743	21,108	16,757	16,221	18,335	17,948
Total (boe/d)	3,781	3,922	4,254	4,241	3,166	3,164	3,639	3,375
Operating Netbacks ($/boe)								
Price(1)	50.50	44.09	40.89	45.48	49.38	46.50	42.03	41.37
Royalties	(8.57)	(5.41)	(7.79)	(3.97)	(9.85)	(7.16)	(8.46)	(7.12)
Transportation	(0.96)	(0.86)	(0.89)	(1.01)	(1.03)	(0.96)	(0.98)	(1.07)
Operating Cost	(10.17)	(8.06)	(8.42)	(7.86)	(7.38)	(7.39)	(8.21)	(5.68)
Operating Netback	30.80	29.76	23.79	32.64	31.12	30.99	24.38	27.50

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

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted and Recent Pronouncements

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

Capital Disclosures - Effective January 1, 2008, ProspEx adopted the new requirements of the CICA for disclosure of the Company's objectives, policies and processes for managing capital (Section 1535) as discussed in note 4 of the First Quarter Financial Statements.

Internal Control Reporting – On April 18, 2008, Canadian Securities Administrators issued a proposed replacement of the current multilateral instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Under the proposal, CEO and CFO annual certification will include an evaluation of the effectiveness of internal controls over financial reporting ("ICFR") as of the end of the financial year and disclosure conclusions about the effectiveness of ICFR in the annual MD&A. This proposed amendment would apply for the year ended December 31, 2008. The Company is continuing with its evaluation of ICFR to ensure it meets the criteria for the proposed certification for December 31, 2008.

Convergence with International Reporting Standards – On February 13, 2008, the Canadian Accounting Standards Board confirmed that the effective date for the convergence of Canadian Generally Accepted Accounting Standards for publicly accountable entities to International Financial Reporting Standards will be January 1, 2011. On April 8, 2008, an exposure draft was released soliciting comment from the Canadian financial community on the proposed standards. Given the infancy of the proposed changes, the Company has not yet determined the impact on its financial position or results of operations.

Disclosure Controls and Policies

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of March 31, 2008, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiary, is made known to them by others within those entities. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls over Financial Reporting

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

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

ADVISORIES

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

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

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

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

Forward-looking Information

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

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

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

ProspEx Resources Ltd.
Consolidated Balance Sheets
(unaudited)

(Stated in thousands of dollars)		March 31, 2008	December 31, 2007
Assets			
Current assets			
Accounts receivable	$	11,539	12,900
Prepaid expenses		864	988
Future income tax asset (note 3)		1,270	-
Unrealized financial instrument gain		-	214
		13,673	14,102
Property, plant and equipment, net		182,514	161,663
	$	196,187	175,765
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	$	28,775	22,761
Unrealized financial instrument loss		4,305	-
Future income tax liability (note 3)		-	69
		33,080	22,830
Long term debt (note 2)		39,425	28,846
Asset retirement obligation		5,357	5,201
Future income tax liability (note 3)		6,001	3,145
Total liabilities		83,863	60,022
Shareholders' Equity			
Share capital (note 4)		90,505	92,204
Contributed surplus		6,004	5,614
Retained earnings		15,815	17,925
Total shareholders’ equity		112,324	115,743
	$	196,187	175,765

Subsequent events (note 7)

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Earnings (Loss), Comprehensive Earnings (Loss) and Retained Earnings
For the Three Months Ended March 31,
(unaudited)

(Stated in thousands of dollars, except per share amounts)		2008	2007
Revenue			
Oil and gas	$	17,378	14,071
Unrealized financial instrument loss		(4,519)	(3,230)
Royalties		(2,950)	(2,807)
		9,909	8,034
Expenses			
Depletion, depreciation and accretion		7,375	6,797
Operating		3,500	2,103
Transportation		332	295
General and administrative		869	639
Interest and bank charges		510	397
Stock-based compensation		195	235
		12,781	10,466
Earnings (loss) before taxes		(2,872)	(2,432)
Income Tax (note 3)			
Future reduction		(762)	(638)
		(762)	(638)
Net earnings (loss) and comprehensive earnings (loss) for the period		(2,110)	(1,794)
Retained earnings, beginning of period		17,925	19,016
Retained earnings, end of period	$	15,815	17,222
Net earnings (loss) per share			
Basic	$	(0.04)	(0.03)
Diluted	$	(0.04)	(0.03)

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(unaudited)

(Stated in thousands of dollars)	2008	2007
Operations		
Net earnings (loss) for the period	$ (2,110)	$ (1,794)
Items not involving cash		
Depletion, depreciation and accretion	7,375	6,797
Stock-based compensation	195	235
Future income taxes (reduction)	(762)	(638)
Unrealized financial instrument loss	4,519	3,230
Asset retirement expenditures	(36)	(297)
	9,181	7,533
Changes in non-cash working capital	1,926	(6,168)
	11,107	1,365
Financing		
Issuance of common shares	506	39
Increase in long-term debt	10,579	22,785
	11,085	22,824
Investments		
Exploration and development expenditures	(17,383)	(18,656)
Property acquisition	(11,498)	-
Deposit on property acquisition	1,175	-
Other capital expenditures	(60)	(74)
	(27,766)	(18,730)
Changes in non-cash working capital	5,574	(5,459)
	(22,192)	(24,189)
Change in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	$ -	$ -

See accompanying notes to consolidated financial statements

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

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

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.

1. CHANGES IN ACCOUNTING POLICIES

(a) Financial Instruments

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

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

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

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

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

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

(b) Capital Disclosures

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

2. LONG TERM DEBT

At March 31, 2008 the Company had a $65 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.

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 March 31, 2008	Three months ended March 31, 2007
Earnings (loss) before taxes	$ (2,872)	$ (2,432)
Rate (%)	29.50%	32.12%
Computed expected reduction for future income taxes	(847)	(781)
Increase (decrease) in taxes resulting from:		
Stock-based compensation	58	75
Effect of change in tax rate	27	68
Income tax reduction	$ (762)	$ (638)

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

($000's)	March 31, 2008	December 31, 2007
Financial instrument loss	$ 1,270	$ -
Financial instrument gain	-	(69)
Future income tax asset (liability)	$ 1,270	$ (69)

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

($000's)	March 31, 2008	December 31, 2007
Property, plant and equipment	$ (6,558)	$ (3,744)
Asset retirement obligation	500	509
Share issue costs	557	590
	(5,501)	(2,645)
Valuation allowance	(500)	(500)
Future income tax liability	$ (6,001)	$ (3,145)

At March 31, 2008, the Company had estimated tax pools available to reduce future taxable income of $159 million (March 31, 2007 – $146 million). ProspEx has committed to incur $8 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing by December 31, 2008. The Company estimates that $7.0 million of this commitment has been expended to March 31, 2008.

4. SHARE CAPITAL

(a) Common Shares & Common Share Performance Warrants Issued

	March 31, 2008		March 31, 2007	
	Number of Shares/Warrants (000's)	Amount ($000's)	Number of Shares/Warrants (000's)	Amount ($000's)
Common shares				
Balance at the beginning of the period	56,453	$ 90,543	53,790	$ 85,681
Flow-through shares tax adjustment	-	(2,219)	-	(4,461)
Shares issued on exercise of warrants	396	796	50	100
Issue costs, net of future tax reduction	-	(34)	-	(21)
Balance at the end of the period	56,849	$ 89,086	53,840	$ 81,299
Common share performance warrants				
Balance at the beginning of the period	2,716	1,661	2,908	$ 1,778
Exercised	(396)	(242)	(50)	(31)
Balance at the end of the period	2,320	$ 1,419	2,858	$ 1,747
Share Capital at the end of the period		$ 90,505		$ 83,046

(b) Contributed Surplus

($000's)	March 31, 2008	March 31, 2007
Balance at the beginning of the period	$ 5,614	$ 4,348
Stock-based compensation	390	470
Balance at the end of the period	$ 6,004	$ 4,818

(c) Stock Options and Special Performance Units

There were no changes in the number of outstanding special performance units during the first three months of 2008 and 2007. As of December 31, 2007 all special performance units have been exercised or cancelled.

Changes in outstanding stock options are summarized below:

	March 31, 2008		March 31, 2007	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding at beginning of period	4,656	$ 3.62	3,354	$ 3.49
Granted	611	3.32	785	4.07
Outstanding at the end of the period	5,267	$ 3.59	4,139	$ 3.60

The following table summarizes stock options outstanding and exercisable at March 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding at period end	Weighted average remaining contractual life (years)	Weighted average exercise price	Number Exercisable at period end	Weighted average exercise price
$2.95 - $3.45	2,641,917	2.37	$3.22	1,982,917	$3.23
$3.48 - $3.95	1,720,500	3.47	$3.79	712,000	$3.84
$4.00 - $4.46	905,000	3.98	$4.27	135,000	$4.23
	5,267,417	3.01	$3.59	2,829,917	$3.43

The fair value of options granted during the first three months of 2008 was $0.8 million (March 31, 2007 - $1.3 million) using the Black-Scholes option pricing model with the following weighted average assumptions for grants as follows:

	March 31, 2008	March 31, 2007
Risk free interest rate	3.2%	4.0%
Expected life	5 years	5 years
Expected volatility	47%	48%
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. A total of $0.2 million (period ended March 31, 2007 - $0.2 million) of stock and unit-based compensation was recorded against income in 2008 and $0.2 million (period ended March 31, 2007 – $0.2 million) was capitalized.

(d) Per Share Amounts

	March 31, 2008	March 31, 2007
Weighted average common shares basic	56,545,317	53,806,716
Dilutive securities:		
Stock options	153,914	374,416
Performance warrants	1,392,110	1,873,005
Special performance units	-	242,722
Diluted	58,091,341	56,296,859

A total of 3,284,500 (March 31, 2007 – 30,000) options were excluded from the diluted calculations as they were anti-dilutive.

(e) Capital Management Strategy

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

(000's)	March 31, 2008	December 31, 2007
Shareholders' equity	$ 112,324	$ 115,743
Bank debt	39,425	28,846
Working capital deficiency excluding unrealized financial instrument impact	16,372	8,873

The Company manages its capital structure and makes adjustments to it as changes in economic conditions and the risk characteristics of underlying petroleum and natural gas assets change. In order to maintain or adjust the capital structure, the Company may and has from time to time issued shares and adjusted spending to manage current or projected operating cash flows and debt levels.

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

As at March 31, 2008 the Company's ratio of net debt to annualized operating cash flow was 1.5 to 1.0 (March 31, 2007 – 1.5 to 1.0), which is within the range established by the Company, and compares to the ratio of 1.0 to 1.0 for the year ended December 31, 2007. The increase during the first quarter is consistent with higher capital spending during the first quarter.

The Company's share capital is not subject to any external restrictions. The bank debt facility has no restrictions other than the limitation of borrowing under the facility on an annual basis. As at March 31, 2008, the Company is in compliance with all flow-through share expenditure requirements as well as all bank facility requirements.

There have been no changes to the Company's capital management strategy during the quarter ended March 31, 2008, and the Company is satisfied with the results to date of its capital management strategy.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

Credit Risk

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

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to two petroleum and natural gas marketers therefore is subject to concentration risk. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreements between parties. The Company attempts to mitigate the risk from joint venture receivables by obtaining joint venturer approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venturers; however in certain circumstances, it may cash call a joint venturer in advance of the work. As well, the Company does have the ability to withhold production from joint venturers in the event of non-payment.

As at March 31, 2008 the Company's receivables consisted of $3.8 million (December 31, 2007 - $5.3 million) from joint venturers, $6.2 million (December 31, 2007 - $5.1 million) of receivables from petroleum and natural gas marketers and $1.5 million (December 31, 2007 - $2.5 million) of other trade receivables.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company manages the credit exposure related to short-term investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at March 31, 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended March 31, 2008.

Liquidity risk

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

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

The following are the contractual maturities of financial liabilities and associated interest payments as at March 31, 2008:

Financial Liability ($000's)	< 1 year	1 - 2 years	2 - 5 years	Thereafter
Accounts payable and accrued liabilities	$ 28,775	-	-	-
Derivative contracts	4,305	-	-	-
Long term debt	-	$ 39,425	-	-
Total	$ 33,080	$ 39,425	-	-

Market risk

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

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

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollars.

Given that changes in exchange rate have an indirect influence, the impact of changing exchange rates can not be accurately quantified. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2008.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial derivative sales contracts. The Company's contracts in place as of March 31, 2008 are as follows:

Type	Amount (GJ/d)	Term	Price ($/GJ)	Type
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

The contracts in place during the three months ended March 31, 2008 resulted in an unrealized loss of $4.5 million (2007 - $3.2 million) and a realized gain of $0.1 million (2007 - $0.7 million).

With respect to commodity prices, during the period ended March 31, 2008, a one dollar increase in the price per GJ of natural gas relevant only to the Company's production dedicated to derivative financial instruments would have resulted in a net earnings increase of $0.2 million. A one dollar decrease in the price per mcf of natural gas on the same production would have had a negligible impact on net earnings.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its credit facility which bears a floating rate of interest. The Company had no interest rate swaps or financial contracts in place as at or during the three months ended March 31, 2008. For the three months ended March 31, 2008, a difference in the interest rate of 1.0% would change net earnings by an estimated $0.1 million, assuming all other variables are constant.

6. ADDITIONAL DISCLOSURES

Net cash interest paid during the quarter was $0.4 million (2007 - $0.2 million). Cash taxes paid during the period was $nil (2007 – $nil).

7. SUBSEQUENT EVENTS

The Company signed an agreement effective April 1, 2008 to dispose of non-operated oil and gas properties in the Granum area of Southern Alberta for a sale price of $5.6 million, subject to normal closing adjustments. The disposition is expected to close May 13, 2008. It is anticipated that proceeds from this property disposition will be directed to exploration and development in West Central Alberta and the Deep Basin.

8. COMPARATIVE INFORMATION

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

Contact Information

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