



ANNUAL INFORMATION FORM
For the year ended December 31, 2008

March 16, 2009

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FORWARD-LOOKING INFORMATION

Certain information contained in this Annual Information Form constitutes forward-looking information or statements including, without limitation, information and statements respecting:

- (a) the anticipated nature, costs and results of the historical and future capital programs of ProspEx Resources Ltd. ("ProspEx" or the "Corporation") including: exploration, development and exploitation activities in conventional and coal bed methane plays ("CBM");
- (b) the potential CBM resource available to the Corporation for exploitation;
- (c) the anticipated effects of the Government of Alberta's royalty framework and the effects of any other royalties (such as freehold or overriding royalties) payable in the future; and
- (d) anticipated capital expenditures, production forecasts, production and reserves additions from the Corporation's historical and future capital programs or acquisitions, operating expenses, net present values of future net revenue from reserves, commodity prices and costs, exchange rates, the impact of contracts for commodities, development plans and programs, tax horizon, future income taxes, abandonment and reclamation costs and expiring acreage.

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 Corporation'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 Corporation's ability to access external sources of debt and equity capital; and the Corporation'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 this Annual Information Form, under the heading "*Business Risks*" in our Management's Discussion and Analysis for the year ended December 31, 2008, and in the Corporation's most recent consolidated financial statements, management information circular, quarterly reports, material change reports and news releases. 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 Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

Forward-looking information respecting:

- (a) the anticipated costs and results, including any production and reserves additions and forecasts thereof from the Corporation's historical and future capital programs or acquisitions are based upon an assessment and interpretation of currently available geological, geophysical, engineering, production, operating and other technical and commercial data, both from the Corporation's existing properties and from other properties considered to be analogous to the Corporation's assets. Generally, it is assumed that future costs and results will be consistent with trends observed in historical costs and results;
- (b) the anticipated potential CBM resource available to the Corporation for exploitation is based upon an assessment and interpretation of currently available geological, engineering, production and operating data, both from the Corporation's properties and from other properties considered to be analogous to the Corporation's assets. Generally, it is assumed that future costs and results will be consistent with trends observed in historical costs and results. In the case of CBM, this information is inherently limited and there is a very high degree of uncertainty associated with the assessment of CBM potential;
- (c) the anticipated future capital programs including, without limitations: exploration, development and exploitation activities in conventional and CBM plays and the timing thereof, are based on the continuing availability of skilled personnel and required oilfield services, continuing availability of capital, timely access to surface land, timely regulatory approvals and the availability of any other inputs or resources as may be required; and
- (d) the anticipated net present values of future net revenue from reserves are based upon assumptions of future commodity prices and costs, exchange rates, the impact of contracts for commodities, tax horizon, future income taxes, capital costs, operating expenses, royalties, overhead costs, and abandonment and reclamation costs. These assumptions are in turn based upon an assessment and interpretation of currently available information from the Corporation's existing properties and from other properties considered to be analogous to the Corporation's assets, and from the commodity and capital markets. Generally, it is assumed that future costs and results will be consistent with trends observed in historical costs and results.

Although the Corporation believes the assumptions underlying such forward-looking information or statements are reasonable, and the information received or disseminated by third parties is reliable, it can give no assurance that such assumptions or information will prove to be correct. The Corporation 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 Corporation 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 Annual Information Form are made as of the date of this document and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking information and 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 Annual Information Form are expressly qualified by this cautionary statement.

BARRELS OF OIL EQUIVALENT

The term barrels of oil equivalent ("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.

CORPORATE STRUCTURE

Name and Incorporation

ProspEx is a corporation incorporated under the name ProspEx Resources Ltd. pursuant to the provisions of the *Business Corporations Act* (Alberta) (the "ABCA") on August 13, 2004.

On October 1, 2004, pursuant to the Esprit Exploration Ltd. ("Esprit") Plan of Arrangement (the "Plan of Arrangement"), ProspEx acquired certain oil and gas properties, undeveloped lands and related assets in Alberta. Included in the transfer of certain oil and gas properties described below were all of the shares of RMX Exploration Ltd. ("RMX"), which also holds working interests in the same properties transferred to ProspEx under the Plan of Arrangement.

ProspEx's head office is located at Suite 2500, 255 – 5th Avenue S.W., Calgary, Alberta, T2P 3G6, and its registered office is located at Bennett Jones LLP, Suite 4500, 855 – 2nd Street S.W., Calgary, Alberta, T2P 4K7.

Intercorporate Relationships

RMX, a wholly-owned subsidiary of ProspEx, was incorporated under the name RMX Exploration Ltd. pursuant to the provisions of the *Canada Business Corporations Act* on November 29, 2000. Except for RMX, the Corporation does not have any subsidiaries that represent individually more than 10%, and in the aggregate more than 20%, of the total consolidated assets and total consolidated sales and operating revenues of the Corporation as at December 31, 2008.

GENERAL DEVELOPMENT OF THE BUSINESS

Background

ProspEx was incorporated pursuant to the provisions of the ABCA on August 13, 2004 in anticipation of the Plan of Arrangement but did not carry on active business prior to completion of the Plan of Arrangement.

Since the closing of the Plan of Arrangement on October 1, 2004, ProspEx has completed a number of private placements, acquisitions and dispositions including, over the last three years, the following:

On December 21, 2005, ProspEx completed a private placement of 1.4 million common shares in the capital of the Corporation ("Common Shares") on a flow-through basis for gross proceeds of \$6.1 million. The proceeds were used in 2006 to fund on-going exploration and development projects of ProspEx.

On May 5, 2006, ProspEx completed a private placement of 1.2 million Common Shares on a flow-through basis for gross proceeds of \$7.0 million. The proceeds were used in 2006 to fund on-going exploration and development projects of ProspEx.

On August 22, 2006, ProspEx closed a disposition of assets in the Harmattan area for proceeds of \$11 million, with a July 1, 2006 effective date. These assets included 191 barrels of oil equivalent ("boe") per day of production and reserves estimated at 401 thousand boe ("mboe") of Proved plus Probable Reserves.

On November 1, 2006, ProspEx completed a private placement of 1.4 million Common Shares on a flow-through basis and 1.8 million additional Common Shares for aggregated proceeds of \$15.1 million. The proceeds were used to fund the 2007 capital program.

On December 13, 2007, ProspEx completed a private placement of 2.2 million Common Shares on a flow-through basis for gross proceeds of \$8.0 million. The proceeds were used in 2008 to fund on-going exploration and development projects of ProspEx.

On December 21, 2007, ProspEx entered into an agreement to acquire certain natural gas assets in the Corporation's core operating area at Ricinus, Alberta. These assets consist of 16 (11.9 net) wells with then current production of approximately 360 boe per day, along with associated gas gathering and field compression facilities. The acquisition closed on January 22, 2008 with an effective date of December 1, 2007. The consideration paid by ProspEx in connection with this acquisition was \$11.6 million, after closing adjustments.

Effective April 1, 2008, ProspEx divested certain non-operated natural gas assets in the Granum area. These assets consisted of approximately 110 boe per day of production and 2,560 net acres of undeveloped land. The disposition closed in the second quarter of 2008 and the consideration received was \$5.6 million, prior to closing adjustments.

Effective May 26, 2008, ProspEx disposed of its lands in the Shaw area (2,500 net undeveloped acres) which were due to expire in August of 2008, for consideration of \$1.0 million.

Effective July 1, 2008, ProspEx acquired partner interests in the Ricinus area for consideration of \$3.4 million, subject to normal closing adjustments. These properties included approximately 60 boe per day of net production and 400 net acres of undeveloped land.

DESCRIPTION OF THE BUSINESS

Business Strategy of the Corporation

The business plan of ProspEx is intended to generate sustainable and profitable long-term per share growth in the oil and natural gas industry in western Canada. In this regard, ProspEx currently intends to focus on enhancing its asset base through land acquisitions; seismic acquisition and interpretation; and exploratory and development drilling within its core areas in the Western Canadian Sedimentary Basin. The Corporation's activities are concentrated in the deep basin gas fairway along the western edge of the Province of Alberta.

Incorporated in 2004, ProspEx's historical strategy was one of conventional exploration and development, complemented by acquisitions of assets in the Corporation's core operating areas. More recently, ProspEx has evolved to a strategy centered on the development of repeatable opportunities offering economies of scale, again complemented by acquisitions.

ProspEx intends to maintain a balance between exploration, development and exploitation projects, combined with acquisition opportunities that meet the business parameters of ProspEx. While ProspEx believes that it has the skills and resources necessary to achieve its objectives, participation in the

exploration and development of oil and natural gas has a number of inherent risks. See "Risk Factors Relating To Our Business".

In reviewing potential drilling opportunities, ProspEx gives consideration to the following criteria:

- (a) the risk capital required to secure or evaluate the investment opportunity;
- (b) the potential return on the project;
- (c) the likelihood of success; and
- (d) the risked return versus cost of capital.

Property Overview

The following is a description of the major oil and natural gas properties, plants and facilities in which ProspEx had an interest as of December 31, 2008. Production volumes represent the working interest share of ProspEx before the deduction of royalties. Reserve amounts are stated, before deduction of royalties, at December 31, 2008 based on escalating cost and price assumptions, as set forth in the GLJ Report (as defined below). See "Oil and Gas Reserves Data".

Deep Basin

Located just south of Grande Prairie in northwestern Alberta, the Deep Basin is one of the premier natural gas exploration and development areas in Western Canada. This area offers multiple productive horizons in a pervasively gas-saturated environment with the potential to drill higher productivity wells. Within this area ProspEx controls 31,253 net acres of undeveloped land. The Deep Basin is a key growth area for ProspEx, accounting for 40% of 2008 exploration and production capital spending, and 31% of the Corporation's 2008 production.

Drilling activity in the Deep Basin typically targets sweet, gas-bearing formations of Cretaceous age, such as the Cadotte, Falher, Gething and Cadomin. In 2008 ProspEx drilled eight (4.6 net) wells in the Deep Basin, all of which were cased for completion as gas wells. Six (3.7 net) of these wells were in the Kakwa area within the Deep Basin. Kakwa will continue to be the Corporation's key focus area in 2009, and is described more fully later in this Annual Information Form. Also in the Deep Basin, ProspEx holds mineral rights at Wapiti, Gold Creek and Elmworth that offer stacked multi-zone drilling locations, usually anchored by resource play opportunities such as the Cadomin formation.

In the fourth quarter of 2005, ProspEx's production in the Deep Basin was only 75 boe per day. This production level rose to 913 boe per day in the fourth quarter of 2006 and to 1,472 boe per day in the fourth quarter of 2007, as the Corporation executed its capital programs. In 2008, production in the Deep Basin averaged 1,214 boe per day, a 13 percent decrease over 2007 average annual production.

West Central Alberta

ProspEx owns 80,481 net acres of undeveloped lands in West Central Alberta, located within four areas: Ricinus, Harmattan, Willesden Green and Garrington. West Central Alberta is ProspEx's second growth area, attracting 47% of exploration and production capital spending in 2008. Production from West Central Alberta was 45% of the corporate total. Drilling activity in West Central Alberta is oriented towards sweet, pervasively gas-bearing formations, with the majority of wells targeting the Cardium formation.

In 2008 ProspEx drilled six (5.0 net) wells in West Central Alberta, all of which were completed as gas wells. Five of these six wells were drilled for the Cardium formation at Ricinus and Harmattan. ProspEx

completed its development of the Cardium at Harmattan in 2008, and expects that future activity in West Central Alberta will be focused on the Ricinus area.

Elsewhere in West Central Alberta, the Corporation has land positions in Willesden Green and Garrington, where the primary targets are the Glauconitic, Ostracod and Viking as well as the deeper Rock Creek and Elkton formations.

The average total production of ProspEx for 2008 in West Central Alberta was approximately 1,735 boe per day, an increase of 29% from 2007 production of 1,346 boe per day.

Southern Alberta

The Corporation's Medallion property, located 15 miles south of Calgary, offers a "resource play" style of shallow gas opportunity, with a series of stacked channels in the Belly River formation providing relatively low risk development drilling over a relatively broad area. On inception of ProspEx in late 2004, Medallion accounted for approximately three quarters of the Corporation's production. With growth in production in West Central Alberta and the Deep Basin, production is now more evenly spread across ProspEx's three core areas, with Medallion currently accounting for about one quarter of the Corporation's production.

Medallion offers access to drilling over the majority of the year, and a ProspEx-owned compression and low pressure gathering system infrastructure is currently in use on the property. Drilling depths at Medallion are relatively shallow at approximately 1,000 to 1,400 meters.

In addition to drilling undeveloped lands at Medallion, the property offers certain opportunities to drill a second well and potentially, a third or fourth well in sections where there is already a producing well. This technique is referred to as "reduced spacing" or "downspacing", and results to date suggest it will allow the capture of additional resources not drained by the first well. Reduced spacing is expected to provide a larger inventory of relatively lower risk development drilling to ProspEx.

In 2008, ProspEx participated in a modest eight (2.3 net) well drilling program in Medallion, with all activity operated by industry partners. Given the lower productivity of this shallow gas play, ProspEx directed capital to the Deep Basin and West Central Alberta areas, which were seen as offering better investment opportunities. Medallion plays a different role, providing a stream of lower decline production and cash flow to fund growth opportunities elsewhere in ProspEx's asset base. However, ProspEx has continued to develop a resource play-based prospect inventory in Medallion, with approximately 160 net locations identified. The Corporation believes significant value could be realized by developing these locations in the future, in an environment of higher natural gas prices and better access to capital.

In addition to the Belly River development, Medallion offers CBM potential. CBM, sometimes referred to as "natural gas from coal", has been the target of industry activity north of Medallion, with a number of operators bringing commercial CBM projects in the Cretaceous Horseshoe Canyon and Belly River formation on stream.

In the Medallion area, ProspEx has a total net land position of approximately 100 sections, providing the Corporation with the large land base typically required for CBM development. There is no contractual commitment to drill or develop any portion of these CBM rights and no material expiries of these rights are anticipated in the next year.

The majority of Horseshoe Canyon and Belly River coals are located at depths of 600 to 800 metres. Costs to drill, complete and tie-in a CBM well are estimated at approximately \$500,000, depending on the depth and specific location. ProspEx's existing low pressure gathering system could be utilized to bring CBM production to the Medallion ATCO pipeline system receipt point.

ProspEx commissioned an independent review of the CBM resource potential at Medallion as contemplated by the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"), effective September 5, 2006. This review, performed by McDaniel & Associates, indicated a "best estimate" of CBM gas-in-place of 280 bcf net to the Corporation in the Horseshoe Canyon and Belly River coals, with a "low estimate" of 140 bcf and a "high estimate" of 350 bcf. Commercial productivity of CBM has not been established in the Medallion area, and further work is required to understand what percentage, if any, of this resource may be economically recoverable. There is no certainty that it will be commercially viable to produce any portion of this gas-in-place.

These resources are classified as discovered. The COGE Handbook defines discovered resources as those quantities of oil and gas estimated on a given date to be remaining in, plus those quantities already produced from, known accumulations. Discovered resources are divided into economic and uneconomic categories, with the estimated future recoverable portion classified as reserves and contingent resources respectively. No analysis of the potential recovery of the Medallion resources was performed, and thus no further sub-classification of the discovered resources has been assigned.

ProspEx does not anticipate significant capital expenditures related to CBM in the near term. Instead, the Corporation is monitoring other industry activity in the area to assess the results achieved by other operators prior to committing significant resources to CBM development.

The Corporation's production in Southern Alberta for 2008 averaged 926 boe per day.

High Impact

ProspEx also has a number of exploration opportunities in its portfolio that it categorizes as "high impact" as they involve relatively high levels of risk and potential reward. ProspEx began with relatively high working interests in these prospects, but has entered into joint venture agreements to effectively manage the risk associated with these types of high impact projects. While these high risk/high reward prospects have not been factored into the Corporation's production forecasts, they could provide substantial upside to the business plan of ProspEx.

At Salter, ProspEx is awaiting regulatory approval for the relicensing of the existing pipeline to accommodate production from a horizontal well drilled in the first quarter of 2008. This approval will allow the well to come on stream at a facilities restricted rate of 2 mmcf per day. ProspEx has a 40% working interest in the production from this well.

At Edson, tie-in operations for an exploratory well drilled in the first quarter of 2008 have been deferred by the operator until additional drilling can be completed in order to justify the large capital expense associated with this project.

Capital spent on high impact prospects is expected to be minimal in 2009 in light of the prevailing business environment.

Employees

As at December 31, 2008, the Corporation had a total of 31 full-time and part-time employees.

Oil and Gas Reserves Data

This statement is dated March 16, 2009. The effective date of the statement is December 31, 2008 and the preparation date of the statement is February 11, 2009.

The tables below summarize ProspEx's crude oil, NGL and natural gas reserves and the present worth of future net cash flows associated with such reserves, as at December 31, 2008, as evaluated and prepared by GLJ Petroleum Consultants Ltd. ("GLJ"), independent petroleum engineers of Calgary, Alberta on February 11, 2009 based on forecasted price assumptions (the "GLJ Report"). The GLJ Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions set out by the Canadian Securities Administrators in National Instrument 51-101 and the COGE Handbook. The tables summarize the data contained in the GLJ Report and, as a result, may contain slightly different numbers than the GLJ Report due to rounding. **All future cash flows are stated prior to provision for indirect costs and after deduction of royalties, estimated future capital expenditures and reserve well abandonment costs. It should not be assumed that the present worth of estimated future cash flows shown below is representative of the fair market value of the reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of ProspEx's crude oil, NGL and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and NGL reserves may be greater than or less than the estimates provided herein.**

In the various reserves related tables included herein, columns may not add due to rounding.

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.

The Government of Alberta implemented a new oil and gas royalty framework effective January 2009. The new framework establishes new royalties for conventional oil, natural gas and bitumen that are linked to price and production levels and apply to both new and existing conventional oil and gas activities and oil sands projects. The GLJ Report was prepared on the basis of the oil and gas royalty framework implemented by the Government of Alberta effective January 2009. 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 Corporation's projects uneconomic. See "Risk Factors – Governmental Regulation and Royalties".

Attached as Schedule A to this Annual Information Form is the report on reserves data of GLJ and attached as Schedule B is the report of management and directors of the Corporation on the oil and gas reserves disclosure.

Petroleum and Natural Gas Reserves and Present Worth Values

(Based on Forecast Price Assumptions)

	Reserves					
	Crude Oil (mbbls)		Natural Gas (mmcf)		NGL (mbbls)	
	Gross	Net	Gross	Net	Gross	Net
Proved						
Developed Producing	27	22	26,252	22,658	958	637
Developed Non-Producing	0	0	4,105	3,593	104	71
Undeveloped	0	0	5,636	4,823	25	17
Total Proved	27	22	35,993	31,074	1,087	725
Probable	7	6	15,142	12,919	366	243
Total Proved plus Probable	34	28	51,135	43,992	1,452	968

	Corporation Share of Present Worth Values									
	Before Income Taxes					After Income Taxes				
	Discounted At (%/year)					Discounted At (%/year)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved										
Developed Producing	166,803	136,665	116,395	101,860	90,936	153,677	125,987	107,431	94,146	84,165
Developed Non-Producing	20,663	15,187	11,904	9,762	8,271	15,317	11,088	8,579	6,954	5,830
Undeveloped.....	14,420	10,257	7,335	5,220	3,653	10,528	6,973	4,519	2,773	1,498
Total Proved	201,886	162,109	135,633	116,842	102,860	179,522	144,048	120,529	103,873	91,492
Probable.....	89,823	58,593	41,337	30,794	23,861	67,287	43,221	30,022	21,993	16,733
Total Proved plus Probable.....	291,709	220,702	176,970	147,636	126,721	246,808	187,269	150,551	125,866	108,225

Notes:

- (1) Columns may not add due to rounding.
- (2) "**Gross**" means ProspEx's total working interest excluding royalties from others.

"**Net**" means ProspEx's total working interest and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

"**Royalties**" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula. In the case of Crown sliding scale royalties which are dependent on selling prices, the price forecasts for the individual properties in question have been employed.

"**Reserves**" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

"**Proved Reserves**" are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves. At least a 90% probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves is the targeted level of certainty.

"**Probable Reserves**" are those additional Reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable Reserves. At least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves is the targeted level of certainty.

"**Proved Developed Reserves**" are those Reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the Reserves on production. The developed category may be subdivided into producing and non-producing.

"**Developed Producing Reserves**" are those Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"**Developed Non-Producing Reserves**" are those Reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"**Undeveloped Reserves**" are those Reserves expected to be recovered from known accumulations where a significant expenditure (e.g. when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the Reserves classification (proved, probable, possible) to which they are assigned.

- (3) The forecast cost and price assumptions assume the continuance of current laws and regulations and changes in wellhead selling prices, and take into account inflation with respect to future operating and capital costs. In the GLJ Report operating costs are assumed to escalate at 2% per annum. Crude oil and natural gas base case prices as forecast by GLJ effective December 31, 2008 are as follows:

**GLJ Petroleum Consultants Ltd.
Crude Oil and Natural Gas Liquids Price Forecast**

Year	WTI at Cushing, Oklahoma	Edmonton Light Sweet 40° API, 0.3% S	Spec Ethane	Edmonton Propane	Edmonton Butane	Edmonton Pentanes Plus	Inflation Rate	Exchange Rate
	(\$US/bbl)	(\$Cdn/bbl)	\$Cdn/bbl	(\$Cdn/bbl)	(\$Cdn/bbl)	(\$Cdn/bbl)	(%/yr)	(\$US/\$Cdn)
2009	57.50	68.61	25.55	43.22	52.14	69.98	2.0	0.825
2010	68.00	78.94	26.80	49.73	61.57	80.52	2.0	0.850
2011	74.00	83.54	28.19	52.63	65.16	85.21	2.0	0.875
2012	85.00	90.92	29.43	57.28	70.92	92.74	2.0	0.925
2013	92.01	95.91	30.27	60.42	74.81	97.82	2.0	0.950
2014	93.85	97.84	30.94	61.64	76.32	99.80	2.0	0.950
2015	95.73	99.82	31.62	62.89	77.86	101.81	2.0	0.950
2016	97.64	101.83	32.31	64.15	79.43	103.87	2.0	0.950
2017	99.59	103.89	33.02	65.45	81.03	105.97	2.0	0.950
2018	101.59	105.99	33.74	66.77	82.67	108.10	2.0	0.950
2019+	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	2.0	0.950

**GLJ Petroleum Consultants Ltd.
Natural Gas Price Forecast**

Year	Alberta Spot AECO-C (\$Cdn/mmbtu)
2009	7.58
2010	7.94
2011	8.34
2012	8.70
2013	8.95
2014	9.14
2015	9.34
2016	9.54
2017	9.75
2018	9.95
2019+	+2.0%/yr

- (4) Weighted average historical prices realized by the Corporation for the year ended December 31, 2008, were \$8.32/mcf for natural gas, \$109.59/bbl for crude oil and \$66.58/bbl for natural gas liquids.
- (5) Substantially all of the Proved Producing Reserves evaluated in the GLJ Report were on production at December 31, 2008.
- (6) The extent and character of all factual data supplied to GLJ were accepted by GLJ as represented. The crude oil and natural gas reserve calculations and any projections upon which the GLJ Report is based were determined in accordance with generally accepted evaluation practices. No field inspection was conducted. Abandonment costs for wells with reserves assigned have been included in the GLJ Report. Salvage values for wells and facilities and lease reclamation costs have not been included in the GLJ report.

Future Development Costs

The GLJ Report estimates the future capital expenditures based on forecasted prices necessary to achieve the estimated present worth of future net cash flows as follows:

	Reserves Case (M\$)	
	Proved	Proved plus Probable
	Costs	Costs
2009	8,237	12,957
2010	5,510	9,947
2011	4,890	7,231
2012	285	285
2013	383	216

	Reserves Case (M\$)	
	Proved	Proved plus Probable
Thereafter	1,312	1,481
Total (Undiscounted)	20,617	32,117

The funds for these costs are anticipated to come from internally generated cash flow.

The following tables set forth elements of future net revenue attributed to Proved Reserves and Proved plus Probable Reserves of ProspEx as of December 31, 2008, estimated based on escalated price assumptions and calculated without discount:

**Total Future Net Revenue
(Undiscounted)
(Based on Forecast Price Assumptions)**

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	402,320	58,600	113,272	20,617	7,945	201,886	22,364	179,522
Proved plus Probable Reserves.....	583,968	86,359	164,506	32,117	9,277	291,709	44,900	246,808

The following tables set forth the future net revenue (before deducting future income tax expenses) of ProspEx as of December 31, 2008, estimated based on forecast price assumptions and calculated using a discount rate of 10%:

**Future Net Revenue
By Production Group
(Based on Forecast Price Assumptions)**

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year)		
		(M\$)	\$/boe ⁽³⁾	\$/mcf ⁽³⁾
Proved Reserves.....	Crude Oil ⁽¹⁾	0	0	0
	Natural Gas ⁽²⁾	135,633	22.89	3.81
	Total	135,633	22.89	3.81
Proved plus Probable Reserves	Crude Oil ⁽¹⁾	0	0	0
	Natural Gas ⁽²⁾	176,970	21.25	3.54
	Total	176,970	21.25	3.54

⁽¹⁾ Including solution gas.

⁽²⁾ Natural gas revenues include NGL by-products.

⁽³⁾ Unit values are based on Corporation net proved plus probable reserves.

Reconciliation of Reserves

The following table provides a reconciliation of the Corporation's gross reserves of crude oil, natural gas and NGL for the year ended December 31, 2008 presented using forecasted prices and costs.

Corporation Gross Reserves Reconciliation

Factors	Crude Oil			Natural Gas			NGL		
	Proved (mdbl)	Probable (mdbl)	Proved Plus Probable (mdbl)	Proved (mmcf)	Probable (mmcf)	Proved Plus Probable (mmcf)	Proved (mdbl)	Probable (mdbl)	Proved Plus Probable (mdbl)
December 31, 2007	60	13	73	33,379	17,668	51,047	925	368	1,293
Extensions	0	0	0	4,418	559	4,977	160	28	187
Infill Drilling	0	0	0	3,260	-991	2,268	138	24	162
Improved Recovery	0	0	0	211	-211	0	7	-4	3
Technical Revisions	-6	-7	-12	-1,761	-2,416	-4,177	-112	-97	-209
Discoveries	0	0	0	0	0	0	0	0	0
Acquisitions.....	0	0	0	4,532	1,062	5,594	256	58	315
Dispositions.....	0	0	0	-1,381	-613	-1,994	-32	-14	-46
Economic Factors.....	0	0	0	95	85	180	4	3	7
Production	-27	0	-27	-6,760	0	-6,760	-259	0	-259
December 31, 2008 ⁽¹⁾	27	7	34	35,993	15,142	51,135	1,087	366	1,452

⁽¹⁾ Totals may vary due to rounding.

⁽²⁾ Gross means ProspEx's total working interest excluding royalties from others.

Significant Factors or Uncertainties Affecting Reserves Data

There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Corporation. The reserve data included herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties and the classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The actual production, revenues, taxes and development and operating expenditures of the Corporation with respect to these reserves will vary from such estimates, and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, as interpreted by the securities regulatory authorities in Canada, the Corporation has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

2008 Average Daily Production Volumes

The following table sets out the Corporation's average daily production volumes by area during the period January 1, 2008 to December 31, 2008.

Property	Gas (mmcf/d)	Oil (bbl/d)	NGL's (bbl/d)	Boe (boe/d)
Southern Alberta.....	5,521	0	6	926
West Central Alberta.....	7,141	72	464	1,726
Deep Basin	5,861	0	237	1,214
Others	39	2	0	9
Total.....	18,562	74	707	3,875

Undeveloped Lands

The following table sets out the Corporation's undeveloped land holdings as at December 31, 2008.

	Gross Acres ⁽¹⁾	Net Acres ⁽²⁾
Total	191,859	122,387

Notes:

⁽¹⁾ "Gross" refers to the total acres in which the Corporation has an interest.

⁽²⁾ "Net" refers to the total acres in which the Corporation has an interest, multiplied by the percentage working interest therein owned by the Corporation.

There are no material work commitments associated with the Corporation's undeveloped land holdings. Of the Corporation's undeveloped land, the rights to explore develop and exploit 56,296 net acres may expire by December 31, 2009 if the Corporation takes no action to retain the land.

Undeveloped Reserves

The following table illustrates the timing of the initial assignment of undeveloped reserves. The Total column represents the undeveloped reserves attributed to the Corporation for the year ended December 31, 2008. These reserves are primarily assigned to undrilled locations in the Southern Alberta property to reflect the future drilling of wells in 2009, 2010, and 2011 on reduced spacing. The future timing of these undeveloped reserves reflects an orderly operational development of the reserves considering infrastructure limitations and corporate capital portfolio management.

Timing of Initial Undeveloped Reserves Assignment

Proved Undeveloped Reserves

	Light & Medium Oil (Mbbl)		Heavy Oil (Mbbl)		Natural Gas (Mmcf)		Natural Gas Liquids (Mbbl)		Oil Equivalent (Mbbl)	
	First Attributed	Total at Year-end	First Attributed	Total at Year-end	First Attributed	Total at Year-end	First Attributed	Total at Year-end	First Attributed	Total at Year-end
Prior	-	-	-	-	2,137	2,137	-	-	356	356
2006	-	-	-	-	1,558	2,596	5	6	264	439
2007	9	9	-	-	4,347	5,571	24	39	758	977
2008	-	-	-	-	1,874	5,636	25	25	337	964

Probable Undeveloped Reserves

	Light & Medium Oil (Mbbbl)		Heavy Oil (Mbbbl)		Natural Gas (Mmcf)		Natural Gas Liquids (Mbbbl)		Oil Equivalent (Mbbbl)	
	First Attributed	Total at Year-end	First Attributed	Total at Year-end	First Attributed	Total at Year-end	First Attributed	Total at Year-end	First Attributed	Total at Year-end
Prior	-	-	-	-	2,496	2,496	-	-	416	416
2006	-	-	-	-	1,969	4,923	21	52	349	873
2007	3	3	-	-	4,440	8,136	22	40	765	1,399
2008	-	-	-	-	1,519	5,859	7	23	260	1,000

Oil and Gas Wells

The following table sets forth the number and status of wells in which the Corporation had a working or a royalty interest in as at December 31, 2008 which are producing or which the Corporation considers to be capable of production. All wells set forth in the table are located in Alberta.

	Producing				Shut-in ⁽¹⁾⁽⁴⁾			
	Oil		Gas		Oil		Gas	
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾
Total	15.0	10.2	223.0	150.9	0.0	0.0	10.0	8.3

Notes:

- (1) "Shut-in" wells means wells which are capable of producing crude oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other reasons.
- (2) "Gross" wells are defined as the total number of wells in which the Corporation has an interest.
- (3) "Net" wells are defined as the aggregate of the numbers obtained by multiplying each gross well by the Corporation's percentage working interest therein.
- (4) All shut-in wells are within five kilometers of pipeline facilities.

Production History

The following table sets forth the Corporation's average daily production volume before deductions of royalties payable to others, crude oil prices, and net oil and gas capital expenditures incurred for the period January 1, 2008 to December 31, 2008. Also shown are average netbacks received by product category.

	Quarter Ended			
	2008			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Daily Production ⁽¹⁾				
Light and Medium Crude Oil (bbl/d)	57	65	108	68
Gas (mcf/d)	16,868	18,379	19,957	19,064
NGLs (bbl/d)	719	722	851	536
Combined (boe/d)	3,587	3,850	4,285	3,781

	Quarter Ended			
	2008			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Price Received				
Light and Medium Crude Oil (\$/bbl)	76.12	125.88	126.37	95.44
Gas (\$/mcf)	7.53	8.14	9.47	7.98
NGLs (\$/bbl)	44.72	78.24	79.09	60.47
Combined (\$/boe)	45.59	55.65	63.00	50.50
Royalties Paid				
Light and Medium Crude Oil (\$/bbl)	8.92	2.38	17.09	8.00
Gas (\$/mcf)	1.23	1.70	1.58	1.22
NGLs (\$/bbl)	11.04	25.30	19.82	13.96
Combined (\$/boe)	8.18	12.98	11.97	8.57
Operating Expenses				
Light and Medium Crude Oil (\$/bbl)	8.10	16.67	16.20	19.67
Gas (\$/mcf)	0.76	1.19	1.31	1.63
NGLs (\$/bbl)	4.36	9.58	9.42	11.23
Combined (\$/boe)	4.58	7.76	8.39	10.17
Transportation Costs				
Light and Medium Crude Oil (\$/bbl)	2.51	1.31	1.89	1.69
Gas (\$/mcf)	0.17	0.15	0.16	0.16
NGLs (\$/bbl)	0.71	0.88	1.02	0.81
Combined (\$/boe)	1.00	0.91	1.00	0.96
Netback Received ⁽²⁾				
Light and Medium Crude Oil (\$/bbl)	56.60	105.52	91.19	66.08
Gas (\$/mcf)	5.37	5.09	6.42	4.96
NGLs (\$/bbl)	28.62	42.49	48.82	34.47
Combined (\$/boe).....	31.83	34.00	41.64	30.80

Notes:

⁽¹⁾ Before deduction of royalties and including royalty interests.

⁽²⁾ Netbacks are calculated by subtracting transportation, royalties and operating costs from revenues.

Production Estimates

The following table provides a summary of the forecast gross production volumes estimated for 2009 in the GLJ Report (forecasted prices). For the purposes of the following table, gross means those reserves or rates that are the Corporation's working interest (operating and non-operating) before deduction of royalties and without any other royalty interest of ProspEx.

	Light and Medium Oil	Heavy Oil	Natural Gas	Natural Gas Liquids	Oil Equivalent
	bbl/d	bbl/d	mcf/d	bbl/d	boe/d
Total Proved					
Deep Basin	0	0	4,326	135	856
Medallion	0	0	5,523	0	921
Other Properties	29	0	4,101	295	1,008
Ricinus	0	0	4,121	239	926
Total Proved ⁽¹⁾	<u>29</u>	<u>0</u>	<u>18,072</u>	<u>670</u>	<u>3,711</u>
Total Proved plus Probable					
Deep Basin	0	0	5,012	160	995
Medallion	0	0	6,041	0	1,007
Other Properties	31	0	4,355	320	1,077
Ricinus	0	0	4,365	254	981
Total Probable ⁽¹⁾	<u>31</u>	<u>0</u>	<u>19,772</u>	<u>734</u>	<u>4,061</u>

Notes:

⁽¹⁾ Totals may vary due to rounding.

Drilling History

The following table sets forth the gross and net exploratory and development wells in which the Corporation participated during the period indicated.

	Year Ended December 31, 2008	
	Gross⁽¹⁾	Net⁽²⁾
Exploratory		
Oil	0	0.0
Gas	4	2.3
Service	0	0.0
Dry	3	2.4
Total	<u>7</u>	<u>4.7</u>
Development		
Oil	0	0.0
Gas	12	6.3
Service	0	0.0
Dry	4	1.2
Total	<u>16</u>	<u>7.5</u>

Notes:

⁽¹⁾ "Gross" wells means the number of wells in which the Corporation has an interest.

⁽²⁾ "Net" wells means the aggregate of the numbers obtained by multiplying each gross well by the Corporation's percentage working interest therein.

Capital Expenditures

In 2008, exploration and development capital expenditures were \$51.5 million. The breakdown for the Corporation's capital expenditures during 2008 is presented below:

	(\$000's)
Drilling and Completions	27,612
Facilities	11,288
Seismic	3,168
Land and lease	6,818
Capitalized G&A	2,602
Total Exploration and Development Capital	51,488
Other	9,226
Total	60,714

Future Commitments

At December 31, 2008, the Corporation had the following financial instrument contracts in place:

Commodity	Contract Type	Contract Period	Notional Contract Amounts	Price Range
Natural Gas	Costless Collar	Nov. 1, 2008 – March 31, 2009	2,000 GJ/d	\$7.00 - \$8.80 (\$Cdn/GJ) at AECO
Natural Gas	Costless Collar	Nov. 1, 2008 – March 31, 2009	2,000 GJ/d	\$7.00 - \$9.15 (\$Cdn/GJ) at AECO
Natural Gas	Put	Nov. 1, 2008 – March 31, 2009	2,000 GJ/d	\$10.00 (\$Cdn/GJ) at AECO

Exploration and Development

In 2009, ProspEx intends to undertake a portfolio of exploration and development projects to capture and advance projects that provide repeatable, scalable opportunities while adding to the net asset value of the Corporation in the long term.

ProspEx's 2009 planned program will be limited to capital spending to slightly less than operating cash flows.

Additional Information Concerning Abandonment and Reclamation Costs

Abandonment and reclamation costs were estimated internally for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. There are currently 235 net wells to be reclaimed by ProspEx. The total abandonment and reclamation costs, net of salvage value are currently estimated to be \$11.0 million (without discount) and \$2.3 million discounted at 10%. In the next three financial years, \$0.5 million of these costs are expected to be incurred. The estimates of future net revenue do not include \$3.0 million of abandonment and reclamation costs (without discount) and includes an additional \$0.7 million discounted at 10% for the Proved Reserves. The estimates of future net revenue do not include \$1.7 million of abandonment and reclamation costs (without discount) and includes an additional \$0.3 million discounted at 10% for the Proved plus Probable Reserves.

Tax Horizon

ProspEx's planned exploration and development expenditures and projections of future income indicate that the Corporation will not be liable to pay income tax in 2009. Based on management's assumptions the earliest that the Corporation will be liable for taxes will be 2011.

Risk Factors Relating to Our Business

Volatility of Oil and Natural Gas Prices

The operational results and financial condition of ProspEx will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on the operations, proved reserves and financial conditions of ProspEx and could result in a reduction of the net production revenue of ProspEx causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings which might be made available to ProspEx are typically determined in part by the borrowing base of the reserves of ProspEx. A sustained material decline in prices from historical average prices could reduce the borrowing base of ProspEx, therefore reducing the bank credit available to ProspEx and could require that a portion of such bank debt be repaid.

ProspEx uses the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed on a quarterly basis for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows. To the extent that such capitalized costs (net of accumulated depreciation and depletion) exceed the present value of estimated future net cash flows from the proved oil and natural gas reserves of ProspEx, those excess costs would be required to be charged to operations.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by ProspEx will result in new discoveries of oil and natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of ProspEx depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that ProspEx will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, ProspEx may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage, processing or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production

delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Need to Replace and Grow Reserves

The future oil and natural gas production of ProspEx, and therefore future cash flows, are highly dependent upon ongoing success in exploring on the Corporation's current and future undeveloped land base, exploiting the current producing properties and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, reserves and production will decline over time as reserves are depleted.

The business of discovering, developing, or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, the ability of ProspEx to make the necessary capital investments to maintain and expand its oil and natural gas reserves may be impaired.

There can be no assurance that ProspEx will be able to find and develop or acquire additional reserves to replace and grow production at acceptable costs.

Competition

There is strong competition relating to all aspects of the oil and natural gas industry. ProspEx will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than ProspEx.

Uncertainty of Reserve Estimates

The reserve and recovery information contained in the GLJ Report is only an estimate and the actual production and ultimate reserves from the properties may be greater or less than the independent estimates of GLJ. In addition, the estimate of CBM resource potential at Medallion, as contained in the independent review of McDaniel & Associates and referred to herein, is only an estimate and the actual CBM resource at Medallion may be greater or less than such estimate.

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of ProspEx. The reserve and cash flow information set forth herein represent estimates only. The reserves and estimated future net cash flow from ProspEx's assets have been independently evaluated effective December 31, 2008 by GLJ. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of ProspEx. Actual production and cash flows will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future

years. The reserves and estimated cash flows contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted by ProspEx. Demand for such limited equipment or access restrictions may affect the availability of such equipment to ProspEx and may delay exploration and development activities. To the extent ProspEx is not the operator of its oil and gas properties, ProspEx will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Operational Hazards and Other Uncertainties

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blow-outs, and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, ProspEx is not fully insured against all of these risks, nor are all such risks insurable. Although ProspEx will maintain liability insurance, where available, in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event ProspEx could incur significant costs that could have a material adverse effect upon its financial condition. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Oil and natural gas exploration and development activities are dependant on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability and/or cost of such equipment to ProspEx and may delay exploration and development activities. To the extent ProspEx is not the operator of its oil and gas properties, ProspEx will be dependent on other operators for timing of activities related to non-operated properties and will be largely unable to direct or control the activities of the operators.

Project Risks

ProspEx manages a variety of small and large projects in the conduct of its business including the drilling and completion of individual wells or groups of wells and construction of facilities required to produce these wells. Project delays may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic.

ProspEx's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including without limitation:

- Timely access to surface locations;
- The availability of processing capacity;
- The availability and proximity of pipeline capacity;
- The supply and demand for oil and natural gas;
- The effects of inclement weather;
- The availability of drilling and related equipment;
- Unexpected cost increases;

- Accidental events; and
- The availability, cost and productivity of skilled labour.

Because of these factors, ProspEx could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Key Personnel

The success of ProspEx will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on ProspEx. ProspEx does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of ProspEx are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that ProspEx will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Environmental Risks

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. Such legislation may also impose restrictions and prohibitions on water use or processing in connection with certain oil and gas operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result, amongst other things in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Canada is a signatory to the United Nations Framework Convention on Climate Change and has adopted the Kyoto Protocol established thereunder requiring binding targets to reduce national emissions of carbon dioxide, methane, nitrous oxide and other greenhouse gases. Details regarding Canada's implementation of the Kyoto Protocol remain unclear. The Government of Canada has indicated an intention to regulate emissions of industrial greenhouse gas ("GHG") emissions from a broad range of industrial sectors in the *Regulatory Framework for Air Emissions* released April 26, 2007 and updated in a March 10, 2008 document entitled *Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions* (collectively, the "Federal Plan"). The Federal Plan states the Government of Canada's national GHG emissions reduction target is an absolute 20% reduction from 2006 levels by 2020, and a 60 to 70% reduction by 2050. The Federal Plan provides some, but not full, detail on planned new GHG and industrial air pollutant limits and compliance mechanisms that the Government of Canada intends to apply to various sectors, including oil and natural gas producers. Details on potential legislation to enact the proposed Federal Plan remain unclear. Since November 2008, the Government of Canada has expressed an interest in pursuing a potential harmonization of future Canadian GHG regulation with future regulation in the United States of America, pursuant to a treaty, raising uncertain implications for GHG emission requirements to be applied to Canadian industry, including the oil and gas sector.

In 2007, the Government of Alberta enacted the *Specified Gas Emitters Regulation*, under the *Climate Change and Emissions Management Act* (Alberta), imposing certain greenhouse gas emissions reduction requirements on large industrial emitters. In January 2008, the Government of Alberta announced a new Climate Change Strategy stating a provincial target of an absolute reduction in greenhouse gas emissions of 14% below 2005 levels by 2050. Details on potential legislation to achieve the proposed provincial target remain unclear.

Future federal legislation, including potential international requirements enacted under Canadian law, as well as provincial emissions reduction requirements, may require the reduction of GHG or other industrial air emissions, or emissions intensity, from the Corporation's operations and facilities. Mandatory emissions reduction requirements may result in increased operating costs and capital expenditures for oil and natural gas producers. The Corporation is unable to predict the impact of emissions reduction legislation on the Corporation and it is possible that such legislation may have a material adverse effect on its business, financial condition, results of operations and cash flows.

ProspEx believes that it is in material compliance with applicable environmental legislation and are committed to continued compliance. ProspEx believes that it is reasonably likely that a trend towards stricter standards in environmental legislation will continue and ProspEx anticipates making increased expenditures of both a capital and an expense nature as a result of increasingly stringent environmental laws.

Governmental Regulation and Royalties

The oil and natural gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to prices, taxes, royalties and the exportation of oil and natural gas. Such regulation may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase the Corporation's costs and have a material adverse impact on ProspEx.

The Government of Alberta implemented a new oil and gas royalty framework effective January 2009. The new framework establishes new royalties for conventional oil, natural gas and bitumen that are linked to price and production levels and apply to both new and existing conventional oil and gas activities and oil sands projects. Under the new framework, the formula for conventional oil and natural gas royalties uses a sliding rate formula, dependant on the market price and production volumes. Royalty rates for conventional oil range from 0% to 50%. Natural gas royalty rates range from 5% to 50%.

In November 2008, the Government of Alberta announced that companies drilling new natural gas and conventional oil wells at depths between 1,000 and 3,500 meters, which are spudded between November 19, 2008 and December 31, 2013, will have a one-time option of selecting new transitional royalty rates or the new royalty framework rates. The transition option provides lower royalties in the initial years of a well's life. For example, under the transition option, royalty rates for natural gas wells will range from 5% to 30%. The election must be made prior to the end of the first calendar month in which the leased substance is produced. All wells using the transitional royalty rates must shift to the new royalty framework rates on January 1, 2014.

The Deep Oil Exploration Program ("DOEP") and the Natural Gas Deep Drilling Program ("NGDDP") are new programs that began January 1, 2009. These programs provide upfront royalty adjustments to new wells. To qualify for such royalty adjustments under the DOEP, exploration wells must have a vertical depth greater than 2,000 metres with a Crown interest and must be spudded after January 1, 2009. These oil wells qualify for a royalty exemption on either the first \$1,000,000 of royalty or the first 12 months of production. The NGDDP applies to wells producing at a true vertical depth greater than 2,500 metres. The NGDDP will have an escalating royalty credit in line with progressively deeper wells from \$625 per metre to a maximum of \$3,750 per metre. There are additional benefits for the deepest wells. Both the DOEP and the NGDDP are five year programs. Any wells spud after December 31, 2013, or any wells that choose the transition option, will not qualify under either program. No royalty adjustments will be granted under either the DOEP or the NGDDP after December 31, 2018.

On March 3, 2009, the Government of Alberta announced a three-point incentive program. This incentive program includes a drilling royalty credit for new oil and natural gas wells drilled between April 1, 2009 and March 31, 2010, providing a \$200-per-metre-drilled royalty credit to companies on a sliding scale based on their production levels from last year. There is also a new well incentive program that provides a maximum 5% royalty rate for the first 12 months of production from new wells that begin producing oil or natural gas between April 1, 2009 and March 31, 2010 to a maximum of 50,000 barrels of oil or 500 million cubic feet of natural gas. The province of Alberta will also invest \$30 million in a fund committed to abandonment and reclamation projects where there is no legally responsible or financially able party to deal with the clean-up of inactive wells.

The changes to the royalty regime in the Province of Alberta is subject to certain risks and uncertainties. There may be modifications introduced to the royalty structure and such changes may be adverse to the business of the Corporation. There can be no assurance that the Government of Alberta nor the Government of Canada will not adopt new royalty regimes which may render the Corporation's projects uneconomic or otherwise adversely effect the business of the Corporation. See "Oil and Gas Reserves Data".

Acquisition Risks

ProspEx intends to continue acquiring oil and natural gas properties. Although ProspEx performs a review of the acquired properties that ProspEx believes is consistent with industry practices, it generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, the Corporation will focus the review efforts on the higher-value properties and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal every existing or potential problem, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation often assumes certain environmental and other risks and liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and actual future production rates and associated costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates.

Although property title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim on ProspEx which could result in a reduction of the revenue received by ProspEx.

Sale of Additional Securities

ProspEx may issue an unlimited number of additional Common Shares and other securities in the future to finance its' activities without the approval of shareholders. ProspEx's Board of Directors has the discretion to set the price and terms of the issuance of any such additional securities and any issuance of additional securities may have a dilutive effect on the holders of Common Shares.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada and Alberta, all of which should

be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the operations of ProspEx in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and ProspEx is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Pricing and Marketing Oil, Natural Gas and Associated Products

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price received by ProspEx depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance and other contractual terms. Oil exports from Canada may be made pursuant to export contracts with terms not exceeding one year in the case of light crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the National Energy Board (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB, which requires the approval of the Governor in Council.

Producers of natural gas also negotiate sales contracts directly with natural gas purchasers. The price received by ProspEx depends, in part, on natural gas quality, prices of competing natural gas and other fuels, distance to market, access to downstream transportation, length of contract term, weather conditions, the supply/demand balance and other contractual terms. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years (without volume restrictions) or for a term of two to 20 years (in quantities of not more than 30,000 m³/day) must be made pursuant to an NEB order. Any natural gas exports to be made pursuant to a contract of longer duration or in larger quantities requires an exporter to obtain an export licence from the NEB (for a term not exceeding 25 years), which requires the approval of the Governor in Council.

The Government of Alberta also regulates the volume of natural gas that may be removed from that province for consumption elsewhere, based on such factors as reserve availability, transportation arrangements and market considerations.

Provincial Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time the governments create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry.

Crude oil and natural gas royalty programs for specific wells and royalty reductions reduce the amount of Crown royalties paid by ProspEx to provincial governments.

The Canadian federal corporate income tax rate levied on taxable income is 19.5% effective January 1, 2007 for active business income including resource income. With the elimination of the corporate surtax effective January 1, 2008 and other rate reductions introduced in the 2008 Federal Budget, the federal corporate income tax rate will decrease to 18% in three steps: 19.5% on January 1, 2008, 19% on January 1, 2009 and 18% on January 1, 2010.

The Government of Alberta implemented a new oil and gas royalty framework effective January 2009. The new framework establishes new royalties for conventional oil, natural gas and bitumen that are linked to price and production levels and apply to both new and existing conventional oil and gas activities and oil sands projects. Under the new framework, the formula for conventional oil and natural gas royalties uses a sliding rate formula, dependant on the market price and production volumes. Royalty rates for conventional oil range from 0% to 50%. Natural gas royalty rates range from 5% to 50%.

In November 2008, the Government of Alberta announced that companies drilling new natural gas and conventional oil wells at depths between 1,000 and 3,500 metres, which are spudded between November 19, 2008 and December 31, 2013, will have a one-time option of selecting new transitional royalty rates or the new royalty framework rates. The transition option provides lower royalties in the initial years of a well's life. For example, under the transition option, royalty rates for natural gas wells will range from 5% to 30%. The election must be made prior to the end of the first calendar month in which the leased substance is produced. All wells using the transitional royalty rates must shift to the new royalty framework rates on January 1, 2014.

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Land Tenure

Crude oil and natural gas located in the western provinces of Canada is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to a variety of international conventions and Canadian federal, provincial and municipal laws, regulations, and guidelines. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. Such legislation may also impose restrictions and prohibitions on water use or processing in connection with certain oil and gas operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result, amongst other things, in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties.

ProspEx is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of increasingly stringent laws relating to the protection of the environment and will be taking such steps as required to ensure compliance with current or future environmental legislation. ProspEx believes that it is in material compliance with applicable environmental laws and regulations. ProspEx also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

Climate Change

Canada is a signatory to the United Nations Framework Convention on Climate Change. The Government of Canada has indicated an intention to regulate emissions of industrial GHG emissions from a broad range of industrial sectors in the *Regulatory Framework for Air Emissions* released April 26, 2007 (the "Framework") and updated in a March 10, 2008 document entitled *Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions* (collectively, the "Federal Plan"). The Federal Plan outlines proposed policies to reduce GHG emissions intensity of regulated facilities starting on the initial planned date of January 2, 2010. New facilities will face intensity reduction requirements, beginning in their fourth year of commercial production, of 2% per year from their 'baseline' emissions intensity (e.g. the emissions intensity of their third year of commercial production) until at least 2020. Targets will be based on a "cleaner fuel standard" (i.e. the use of natural gas as a fuel) for new facilities commencing production before 2012, although new facilities commencing production in 2012 or later that are built "carbon-capture ready" will not need to meet the cleaner fuel standard until 2018. Compliance options under the Federal Plan include: making emissions intensity improvements, making investments in certified carbon capture and storage projects (until 2018), buying offsets or emissions performance credits, and, for a portion of each entity's emissions reduction obligations (the portion would start at 70% and decline to 0% in 2018), making payments of \$15/ton until 2012, then \$20 or more/ton, to the federal technology fund.

The Government of Canada currently proposes to enter into equivalency agreements with provinces to establish a consistent regulatory regime for GHGs and industrial air pollutants, but the success of any such plan is uncertain, possibly leaving overlapping levels of regulation. Further, since the U.S. presidential elections, announcements from the Government of Canada indicate an interest in creating a North American cap and trade system with "hard caps" on emissions from facilities rather than emissions

intensity limits. No assurance can be given that either a modified Federal Plan or a North American cap and trade system will or will not be implemented, or what obligations might be imposed under any such system.

The Framework also outlines proposed requirements by the Government of Canada governing the emission of industrial air pollutants starting in 2010. Proposed compliance mechanisms include fixed emission caps and an emissions credit trading system for certain industrial air pollutants, as well as several options from which companies may choose to meet GHG emission reduction targets. The current status of these proposals is unclear. The Government of Canada currently imposes reporting obligations under the *Canadian Environmental Protection Act, 1999* for facilities that create GHG emissions over 100,000 tons in any year.

As the details of the implementation of any federal legislation for GHGs or industrial pollutants have not been announced, the effect on ProspEx operations cannot be determined at this time.

Alberta regulates GHG emissions under the *Climate Change and Emissions Management Act*, the *Specified Gas Reporting Regulation* (the "SGRR"), which imposes GHG emissions reporting requirements, and the *Specified Gas Emitters Regulation* (the "SGER") which imposes GHG emissions limits. Under the SGRR, ProspEx must report if it has GHG emissions of 100,000 tonnes or more from a facility in any year. Under the SGER, GHG emission limits apply once a facility has direct GHG emissions in a year of 100,000 tonnes or more. Under the SGER, any facility coming into commercial production after 2000 will be considered a new facility and will be required to reduce its emission intensity (e.g. tonnes of GHGs emitted per unit of production) by 2% per year beginning in its fourth year of commercial operation, up to an aggregate 12% reduction from the emissions intensity level of its third year of commercial operation. The SGER permits ProspEx to meet any applicable emission limits by making emissions intensity improvements at facilities, offsetting GHG emissions by purchasing offset credits or emission performance credits in the open market, or acquiring 'fund credits' by making payments of \$15/per tonne to the Alberta Climate Change and Management Fund. The Government of Alberta recently announced its intention to raise the price of fund credits and increase the required reductions in GHG emissions intensity to unspecified levels. In addition, Alberta facilities must currently report emissions of industrial air pollutants and comply with obligations imposed in permits and under environmental regulations.

Trends

Natural gas prices have been volatile over the last few years. With the supply and demand balance for natural gas being extremely tight, the market is experiencing a great deal of elasticity in pricing due to a number of factors, including weather, drilling activity, declines, storage levels, fuel switching and demand.

The recent decline in commodity prices has primarily been driven by the deterioration of the global economic environment, including, without limitation, volatility in the capital markets and lack of liquidity in the credit markets. Subject to the severity of the current winter heating season and demand levels for natural gas in North America, the current economic slowdown could moderate energy consumption growth and may result in a further decline in oil and natural gas prices which may have a materially adverse affect on ProspEx.

Equity financings are expected to be more difficult and selective in the future forcing companies to work within existing cash flows and opportunities that can be internally generated. This may result in further industry consolidation, as companies have to focus on cost savings and operational controls in order to perform to market expectations.

DESCRIPTION OF SHARE CAPITAL

The following is a summary of the rights, privileges, restrictions and conditions attaching to the Common Shares, the non-voting common shares in the capital of ProspEx (the "Non-Voting Shares"), the preferred shares in the capital of ProspEx (the "Preferred Shares") and the Common Share performance warrants issued by the Corporation upon a private placement that was completed contemporaneously with the closing of the Plan of Arrangement (the "Performance Warrants").

Common Shares

ProspEx is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per Common Share at meetings of shareholders of ProspEx, to receive dividends if, as and when declared by the Board of Directors of ProspEx (the "Board") and to receive *pro rata* the remaining property and assets of ProspEx upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares.

Non-Voting Shares

ProspEx is authorized to issue an unlimited number of Non-Voting Shares. Holders of ProspEx Non-Voting Shares, except as required by the ABCA, are not entitled to vote at meetings of shareholders of ProspEx, but are entitled to receive dividends if, as and when declared by the Board, and to receive *pro rata* the remaining property and assets of ProspEx upon the dissolution or winding-up together with the holders of the Common Shares, subject to the rights of shares having priority over the Common Shares and the Non-Voting Shares. No Non-Voting Shares are presently outstanding.

Preferred Shares

The Preferred Shares are issuable in series and have such rights, restrictions, conditions and limitations as the Board may from time to time determine. The Preferred Shares shall rank senior to the Common Shares and Non-Voting Shares with respect to the payment of dividends or distribution of assets or return of capital of ProspEx in the event of a dissolution, liquidation or winding up of ProspEx. No Preferred Shares are presently issued and outstanding.

Performance Warrants

A total of 3,214,285 Performance Warrants were issued pursuant to a private placement of ProspEx which closed contemporaneously with the closing of the Plan of Arrangement. Each Performance Warrant, upon vesting, entitles the holder thereof to acquire one Common Share at an exercise price of \$1.40 on or before October 1, 2009. According to their terms, the first third of the Performance Warrants vested on October 1, 2005, the second third vested on October 1, 2006 and the final third of the Performance Warrants vested on October 1, 2007.

Vesting of the Performance Warrants was subject to the Common Shares trading at or above certain pricing thresholds on the Toronto Stock Exchange. These pricing thresholds have been met.

As of the date hereof, there are 2,016,269 Performance Warrants issued and outstanding.

MATTERS RELATING TO PROSPEX COMMON SHARES

Market for Common Shares

The Common Shares are listed and posted for trading on the Toronto Stock Exchange under the trading symbol "PSX". The following table sets forth the market price ranges and the aggregate volume of trading of the Common Shares on the Toronto Stock Exchange for the periods indicated:

<u>Period</u>	<u>High</u> <u>(\$)</u>	<u>Low</u> <u>(\$)</u>	<u>Close</u> <u>(\$)</u>	<u>Volume</u> <u>(Common Shares)</u>
2008				
January.....	3.50	2.76	3.25	783,830
February.....	4.15	3.14	3.90	1,463,436
March.....	4.03	3.30	3.48	1,852,160
April.....	4.09	3.26	3.90	3,327,568
May.....	4.06	3.61	3.74	2,282,367
June.....	4.01	3.27	3.46	2,254,282
July.....	3.54	2.91	3.02	801,407
August.....	3.09	2.60	3.09	1,434,129
September.....	3.05	2.00	2.01	2,034,922
October.....	2.10	1.00	1.50	2,727,012
November.....	1.64	0.75	0.86	1,509,591
December.....	0.90	0.42	0.60	4,002,596

Escrowed Shares

To the knowledge of the Corporation none of the outstanding securities of the Corporation are currently held in escrow as at the date hereof.

Dividends

ProspEx has not paid any dividends on its share capital, including the Common Shares.

The future payment of dividends will be dependent upon the financial requirements of ProspEx to fund future growth, the financial condition of ProspEx and other factors which the Board may consider appropriate in the circumstances. ProspEx cannot pay any dividends without the prior consent of its bank syndicate.

DIRECTORS AND OFFICERS

The names, municipalities of residence, positions with the Corporation and the principal occupations of the directors and officers of the Corporation as at the date hereof are set out below.

Name and Municipality of Residence	Office or Position with the Corporation	Present and Principal Occupation During the Last Five Years
Stephen J. Savidant <i>Calgary, Alberta</i>	Chairman of the Board of Directors	Independent business man since June 2006; prior thereto President and Chief Executive Officer of Esprit Exploration Ltd. (oil and gas company), the operating company of Esprit Energy Trust since May 2002.
John W. Rossall <i>Calgary, Alberta</i>	Director, President and Chief Executive Officer	President and Chief Executive Officer of ProspEx since August 13, 2004; prior thereto Vice President, North Business Unit of Burlington Resources Canada Limited (oil and gas company) since December 2001.
Brian E. Hiebert ⁽¹⁾⁽²⁾ <i>Calgary, Alberta</i>	Director	President of B&G Energy Ltd. (oil and gas company) since September 2002.
Kyle D. Kitagawa ⁽¹⁾⁽²⁾ <i>Calgary, Alberta</i>	Director	Managing Director, North River Capital Corp. since 2003.
Ian MacGregor ⁽¹⁾⁽²⁾ <i>Calgary, Alberta</i>	Director	President of North West Capital Inc. (private investment and advisory company) since July 2002.
Jean-Paul H. Lachance <i>Calgary, Alberta</i>	Vice President, Engineering	Vice President, Engineering of ProspEx since August 13, 2004; prior thereto Senior Reservoir Engineer of Esprit Exploration Ltd. (oil and gas company) since November 2002.
R. Bruce McFarlane <i>Calgary, Alberta</i>	Vice President, Exploration	Vice President, Exploration of ProspEx since July 1, 2007; prior thereto Senior Geologist at ProspEx since March 2007; prior thereto Senior Exploration Geologist at Kereco Energy Ltd. since 2005; and prior thereto Senior Geologist and Team Lead at Burlington Resources Canada Limited since 2001.
Peter C. Parkinson <i>Calgary, Alberta</i>	Vice President, Land	Vice President, Land of ProspEx since February 15, 2008; prior thereto Senior Landman at ProspEx since April 2007; prior thereto a consultant to Berens Energy Ltd. from January 2006 to April 2006; prior thereto Vice President, Land at Berland Exploration Ltd. from February 2003 to January 2006.
George D.K. Yee <i>Calgary, Alberta</i>	Vice President, Finance, Chief Financial Officer and Corporate Secretary	Vice President, Finance, Chief Financial Officer and Corporate Secretary of ProspEx since August 13, 2004; prior thereto Controller, Esprit Exploration Ltd. (oil and gas company) since August 2002.

Notes:

⁽¹⁾ Member of the Audit Committee.

⁽²⁾ Member of the Corporate Governance and Compensation Committee.

Each director of ProspEx has held such office since 2004. The term of each director of the Board expires at the next annual meeting of shareholders of the Corporation. The next annual meeting of the Corporation is presently scheduled to be held on May 12, 2009.

As at March 16, 2009, the directors and executive officers of the Corporation, as a group, beneficially, owned, directly or indirectly, 3,099,919 Common Shares or approximately 5.4% of the issued and outstanding Common Shares and held warrants and stock options to acquire a further 3,260,571 Common Shares. The information as to securities beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective individuals.

Certain directors of the Corporation are associated with other companies, which may give rise to conflicts of interest. In accordance with the ABCA, directors who have an interest in a material contract or a

material transaction, whether made or proposed, with the Corporation are required, subject to certain exceptions, to disclose the nature and extent of the interest. A director required to disclose such interest shall abstain from voting on any resolution to approve the contract or transaction, except as otherwise permitted by the ABCA. In addition, each director is required to act honestly and in good faith with a view to the best interests of the Corporation.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors consists of three independent members: Brian E. Hiebert, Kyle D. Kitagawa (Chairman) and Ian MacGregor.

The responsibilities and duties of the Audit Committee are set out in the Committee's charter text which is set forth in Schedule C to this Annual Information Form.

The Board of Directors believes that the composition of the Audit Committee reflects a high level of financial literacy and expertise. Each member of the Audit Committee has been determined by the Board to be "independent" and "financially literate" as such terms are defined under Canadian securities laws. The Board has made these determinations based on the education and breadth and depth of experience of each member of the Committee. The following is a description of the education and experience of each member of the Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee:

Brian E. Hiebert – Mr. Hiebert earned a Bachelor of Geologic Engineering degree from the University of Saskatchewan in 1980. Mr. Hiebert is currently the President of B&G Energy Ltd., an oil and gas company. Mr. Hiebert has extensive experience in the Western Canadian Sedimentary Basin having led several successful private oil and gas companies.

Kyle D. Kitagawa – Mr. Kitagawa earned a Bachelor of Commerce degree from the University of Calgary in 1982 and Master of Business Administration from Queen's University in 1988. Mr. Kitagawa is also a Chartered Accountant and has previous experience auditing public oil and gas companies. Mr. Kitagawa is currently the Managing Director of North River Capital Corp. Mr. Kitagawa has extensive experience supervising and providing oversight to both accounting and financial areas.

Ian MacGregor – Mr. MacGregor earned a Bachelor of Science (Mechanical Engineering) degree from the University of Calgary in 1971. Mr. MacGregor is currently the President of a private investment and advisory company and serves on the board of directors of several non-public companies. With extensive experience in many organizations within the oil and gas sector, Mr. MacGregor provides additional oversight and background to the accounting and financial requirements of ProspEx.

Auditor Fees

The following summarizes fees paid to the Corporation's independent auditors, KPMG LLP, during the years ended December 31, 2007 and 2008.

	2007	2008
Audit Fees		
– Audit of the Corporation's annual consolidated financial statements	\$76,200	\$74,000
– Audits of subsidiaries	nil	nil
Audit Related Fees		
– Review of interim consolidated financial statements	35,560	48,768
– Review and assistance with November 2006 share issuance	7,600	nil
Tax Fees	nil	2,100
All Other Fees	nil	nil
Total	\$119,360	\$124,868

LEGAL PROCEEDINGS

Neither the Corporation nor any of its properties are subject, nor were subject during the financial year ended December 31, 2008, to any material legal proceeding nor are there any such proceedings known to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of directors, executive officers, senior officers, any shareholder who beneficially owns, directly or indirectly, more than 10% of the outstanding Common Shares or any known associate or affiliate of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect ProspEx.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Olympia Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

The Corporation did not enter into any material contracts, other than those entered into in the ordinary course of business, during its most recently completed financial year or before the most recently completed financial year that are still in effect.

INTERESTS OF EXPERTS

As at the date hereof, the principals of GLJ, the independent reserves evaluators appointed by the Board of Directors, as a group, did not beneficially own, directly or indirectly, any of the outstanding Common Shares.

The auditors of the Corporation are KPMG LLP, Chartered Accountants, Calgary, Alberta. KPMG LLP is independent in accordance with the auditor's rule of professional conduct of the Institute of Chartered Accountants of Alberta.

As of the date hereof, the principals of McDaniel & Associates, reserve evaluators appointed by the Corporation to complete an independent review of certain of its CBM resources, as a group, did not beneficially own, directly or indirectly, any of the outstanding Common Shares.

ABBREVIATIONS AND EQUIVALENCIES

The following are abbreviations and definitions of terms used in this Annual Information Form. All calculations converting natural gas to crude oil equivalent have been made using a ratio of six mcf of natural gas to one barrel of crude equivalent.

Crude Oil and Natural Gas Liquids		Natural Gas	
bbl	One barrel equaling 34.972 Imperial gallons or 42 U.S. gallons	bcf	Billion cubic feet
bbl/d	Barrels per day	mcf	Thousand cubic feet
boe	Barrels of oil equivalent	mmcf	Million cubic feet
boe/d	Barrels of oil equivalent per day	mcf/d	Thousand cubic feet per day
mbbls	Thousand barrels	mmbtu	Million British Thermal Units
NGL	Natural gas liquids, consisting of any one or more of propane, butane and condensate	GJ	Gigajoules
		GJ/d	Gigajoules per day

ADDITIONAL INFORMATION

Additional information relating to ProspEx may be found on SEDAR at www.sedar.com. Further information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Management Information Circular of the Corporation for the Corporation's most recent annual meeting of shareholders that involved the election of directors and additional financial information is provided in the consolidated financial statements of the Corporation for the year ended December 31, 2008 and the three months ended December 31, 2008 and the MD&A contained in the 2008 Annual Report.

Any request for any documents referred to above should be made to the Corporate Secretary, ProspEx Resources Ltd., Suite 2500, 255 – 5th Avenue S.W., Calgary, Alberta T2P 3G6 or by telecopier at (403) 268-3987.

SCHEDULE A

Report on Reserves Data

To the board of directors of ProspEx Resources Ltd. (the "Corporation"):

1. We have evaluated the Corporation's reserves data as at December 31, 2008. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008 using forecast prices and costs.
2. The reserves data are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10%, included in the reserves data of the Corporation evaluated by us for the period ended December 31, 2008, and identifies the respective portions thereof that we have evaluated and reported on to the Corporation's board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate) (\$MM)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants Ltd.	ProspEx Resources Ltd. February 11, 2009	Canada	\$0	\$176,970	\$0	\$176,970

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada

Dated March 16, 2009

(signed) GLJ Petroleum Consultants Ltd.

GLJ Petroleum Consultants Ltd.

SCHEDULE B

Report of Management and Directors on Reserves Data and Other Information

Management of ProspEx Resources Ltd. (the "Corporation") are responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and future net revenue as at December 31, 2008 using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The board of directors of the Corporation has:

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The board of directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101 F1 containing the reserves data and other oil and gas information;
- (b) the filing of Form 51-101 F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

DATED this 16th day of March, 2009.

(signed) *John W. Rossall*
John W. Rossall
President and Chief Executive Officer

(signed) *George D.K. Yee*
George D.K. Yee
Vice President, Finance and
Chief Financial Officer

(signed) *Stephen J. Savidant*
Stephen J. Savidant
Director

(signed) *Kyle D. Kitagawa*
Kyle D. Kitagawa
Director

SCHEDULE C

AUDIT COMMITTEE MANDATE

AUDIT COMMITTEE

Policy Statement

It is the policy of ProspEx Resources Ltd. (the "Corporation") to establish and maintain an Audit Committee, composed entirely of independent directors, to assist the Board of Directors (the "Board") in carrying out their oversight responsibility for the Corporation's internal controls, financial reporting and risk management processes. The Audit Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If determined necessary by the Audit Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

Composition of the Committee

1. The Audit Committee shall consist of at least three directors. The Board shall appoint the members of the Audit Committee and may seek the advice and assistance of the Corporate Governance and Compensation Committee in identifying qualified candidates. The Board shall appoint one member of the Audit Committee to be the Chair of the Audit Committee.
2. Each director appointed to the Audit Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who is independent of management and is free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the then current legislation, rules, policies and instruments of applicable regulatory authorities.
3. Each member of the Audit Committee shall be "financially literate". In order to be financially literate, a director must be, at a minimum, able to read and understand basic financial statements, and at least one member shall have "accounting or related financial management expertise", meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.
4. A director appointed by the Board to the Audit Committee shall be a member of the Audit Committee until replaced by the Board or until his or her resignation.

Meetings of the Committee

1. The Audit Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair of the Audit Committee and whenever a meeting is requested by the Board, a member of the Audit Committee, the auditors, or a senior officer of the Corporation. Meetings of the Audit Committee shall correspond with the review of the quarterly financial statements and management discussion and analysis.

2. Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee and to the auditors, who shall be entitled to attend each meeting of the Audit Committee and shall attend whenever requested to do so by a member of the Audit Committee.
3. Notice of a meeting of the Audit Committee shall:
 - (a) be in writing;
 - (b) state the nature of the business to be transacted at the meeting in reasonable detail;
 - (c) to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
 - (d) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Audit Committee may permit.
4. A quorum for the transaction of business at a meeting of the Audit Committee shall consist of a majority of the members of the Audit Committee. However, it shall be the practice of the Audit Committee to require review, and, if necessary, approval of certain important matters by all members of the Audit Committee.
5. A member or members of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
6. In the absence of the Chair of the Audit Committee, the members of the Audit Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Audit Committee shall choose one of the persons present to be the Secretary of the meeting.
7. The Chairman of the Board, senior management of the Corporation and other parties may attend meetings of the Audit Committee; however the Audit Committee (i) shall meet with the external auditors independent of management, as necessary, in the sole discretion of the Committee, but in any event, not less than quarterly; and (ii) may meet separately with management.
8. Minutes shall be kept of all meetings of the Audit Committee and shall be signed by the Chair and the Secretary of the meeting.

Duties and Responsibilities of the Committee

1. The Audit Committee's primary duties and responsibilities are to:
 - (a) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
 - (b) monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
 - (c) monitor the independence and performance of the Corporation's external auditors;
 - (d) deal directly with the external auditors to approve external audit plans, other services (if any) and fees;

- (e) directly oversee the external audit process and results (in addition to items described in Section 4. below);
 - (f) provide an avenue of communication among the external auditors, management and the Board;
 - (g) ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual; and
 - (h) ensure that an appropriate Code of Conduct is in place and understood by employees and directors of the Corporation.
2. The Audit Committee shall have the authority to:
- (a) inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates;
 - (b) discuss with the management of the Corporation, its subsidiaries and affiliates and senior staff of the Corporation, any affected party and the external auditors, such accounts, records and other matters as any member of the Audit Committee considers necessary and appropriate;
 - (c) engage independent counsel and other advisors as it determines necessary to carry out its duties; and
 - (d) to set and pay the compensation for any advisors employed by the Audit Committee.
3. The Audit Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.
4. The Audit Committee shall:
- (a) review the audit plan with the Corporation's external auditors and with management;
 - (b) discuss with management and the external auditors any proposed changes in major accounting policies or principles, the presentation and impact of significant risks and uncertainties and key estimates and judgements of management that may be material to financial reporting;
 - (c) review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
 - (d) review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
 - (e) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;

- (f) review audited annual financial statements and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all significant variances between comparative reporting periods;
- (g) consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;
- (h) review with financial management and the external auditors the quarterly unaudited financial statements and management discussion and analysis before release to the public;
- (i) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management discussion and analysis and press releases; and
- (j) oversee, any of the financial affairs of the Corporation, its subsidiaries or affiliates, and, if deemed appropriate, make recommendations to the Board, external auditors or management.

5. The Audit Committee shall:

- (a) evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditor or the discharge of the external auditor when circumstances are warranted;
- (b) consider the recommendations of management in respect of the appointment of the external auditors;
- (c) pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors', or the external auditors of the Corporation's subsidiary entities;
- (d) approve the engagement letter for non-audit services to be provided by the external auditors or affiliates, together with estimated fees, and considering the potential impact of such services on the independence of the external auditors;
- (e) when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to National Instrument 51-102 (or any successor instrument) of the Canadian Securities Administrators and the planned steps for an orderly transition period; and
- (f) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.

6. The Audit Committee shall:
 - (a) review with management at least annually, the financing strategy and plans of the Corporation; and
 - (b) review all securities offering documents (including documents incorporated therein by reference) of the Corporation.
7. The Audit Committee shall review the amount and terms of any insurance to be obtained or maintained by the Corporation with respect to risks inherent in its operations and potential liabilities incurred by the directors or officers in the discharge of their duties and responsibilities.
8. The Audit Committee shall review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.
9. The Audit Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters, which are directed to the Audit Committee by any member of the Board, a shareholder of the Corporation, the external auditors, or senior management.
10. The Audit Committee shall periodically review with management the need for an internal audit function.
11. The Audit Committee shall review the Corporation's accounting and reporting of environmental costs, liabilities and contingencies.
12. The Audit Committee shall establish and maintain procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
13. The Audit Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors or auditing matters.
14. The Audit Committee shall review with the Corporation's legal counsel as required but at least annually, any legal matter that could have a significant impact on the Corporation's financial statements, and any enquiries received from regulators, or government agencies.
15. The Audit Committee shall assess, on an annual basis, the adequacy of this Mandate and the performance of the Audit Committee.