



## ProspEx Announces 2007 First Quarter Results

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

CALGARY, May 3, 2007 / CNW / - ProspEx Resources Ltd. ("ProspEx" or the "Company") is pleased to provide its financial and operating results for the three month period ended March 31, 2007.

"ProspEx enjoyed a successful winter drilling season, which included a prolific exploration discovery in the Deep Basin and ongoing success at our Harmattan project in West Central Alberta", said John Rossall, President and Chief Executive Officer. "With the success of these projects we are on target with our 2007 plans."

### HIGHLIGHTS

- In the first quarter, ProspEx participated in eight (4.3 net) wells with a 76% net success rate. The Company drilled an exploration well in the Deep Basin which is now onstream at a gross rate of approximately 17 million cubic feet ("mmcf") per day (30% ProspEx working interest), and extended the productive Cardium trend at its Harmattan project with the drilling of two successful wells.
- Average production for the month of April 2007 is estimated at 3,800 barrels of oil equivalent ("boe") per day. The Company expects production to be around 4,400 boe per day in late May after facilities construction at Harmattan is complete.
- Production for the first quarter was 3,166 boe per day. This production is unchanged from the prior quarter, and is 24% higher than the first quarter of 2006. First quarter production was constrained by short-term facilities capacity issues and regulatory delays due to good production practice ("GPP") approvals.
- Cash flow for the quarter was \$7.5 million, an increase of 31% compared to the prior year due to higher production levels. Cash flow was unchanged from the prior quarter, as production levels and operating netbacks were unchanged.
- The Company showed a loss of \$1.8 million in the first quarter, primarily due to mark to market reversals on financial instruments, in addition to the Company experiencing higher depletion, depreciation and accretion rates, operating costs and royalties compared to the prior year.
- Net debt at quarter end was \$44.1 million, reflecting the planned capital activity from the winter drilling program. Over the second quarter, net debt is estimated to decline to approximately \$40 million due to higher levels of production and reduced capital spending during spring breakup.

### OPERATIONAL REVIEW

#### Capital Program

In the first quarter of 2007, ProspEx drilled eight (4.3 net) wells with a 76% net success rate. Two (1.25 net) wells were drilled in the Deep Basin, three (2.5 net) in West Central Alberta, and one (0.5 net) in Southern

Alberta. In addition, the Company pursued ongoing completion and tie-in of wells drilled in the fourth quarter of 2006.

In West Central Alberta, two wells were successfully drilled and completed to extend the Harmattan Cardium W Pool trend to a length of six miles. Drilling for the remainder of 2007 will be focused on additional delineation to determine the extent of the productive trend, as well as development drilling around the existing wells. The third West Central well was drilled in Ricinus and was abandoned.

In the Deep Basin, the highlight of the first quarter program was a successful exploration well in the Wapiti area. This well came onstream at the end of March, and is now producing at a gross rate of approximately 17 million cubic feet ("mmcf") per day (800 boe per day net to ProspEx). Production is currently restricted by facilities capacity.

In Southern Alberta, one (0.5 net) partner operated well was drilled in Medallion, and two partner operated wells (20% ProspEx interest after completion) were drilled in Granum. The Granum wells tested at rates of 1.7 mmcf per day and 2.0 mmcf per day. Tie-in of these wells is currently in progress.

Capital expenditures were \$18.7 million during the first quarter of 2007. During the quarter, the Company incurred \$10.0 million in drilling, completion and seismic expenditures, \$2.2 million in land expenditures, and \$5.9 million in facilities costs. Of the \$5.9 million of facilities capital, \$2.6 million was spent in Harmattan to construct gathering system and facilities related to the Company's Harmattan Cardium W Pool project.

## Production

Production (boe/d)	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Southern Alberta	1,162	1,131	1,104	1,188	1,255
West Central	1,167	1,108	1,534	1,129	924
Deep Basin	823	913	991	1,042	356
Other	14	12	10	16	20
Total	3,166	3,164	3,639	3,375	2,555

Production in the first quarter of 2007 was 3,166 boe per day, unchanged from the prior quarter's 3,164 boe per day. This was lower than the exit production of 3,600 boe per day due to the following:

- Production restrictions averaging approximately 150 boe per day over the quarter in Elmworth, Willesden Green and Salter due to facilities maintenance and capacity constraints. These constraints have now been alleviated.
- Loss of approximately 120 boe per day (averaged over the quarter) due to waiting times involved in the processing of good production practice ("GPP") approvals for wells in Ricinus and Willesden Green. The GPP approval for Willesden Green has since been received.

Average production for the month of April is estimated at 3,800 boe per day. Approximately 600 boe per day of new net production is expected to come onstream by late May after construction of the Harmattan oil battery is complete. A further 300 net boe per day is expected to come onstream in the third quarter at

Harmattan when additional pipeline construction is completed. The Company continues to have 150 boe per day of net production shut-in at Ricinus pending receipt of GPP approval.

## 2007 Guidance Summary

Annual Production	4,000 to 4,200 boe per day
Capital expenditures	\$52 million
Operating costs	\$7.25 per boe
G&A	\$1.75 per boe
Royalties	24%

ProspEx's guidance for 2007 is summarized above, and is unchanged from prior guidance.

## Reader's Advisory

ProspEx is a Calgary based junior oil and gas company focused on exploration for natural gas in the Western Canadian Sedimentary Basin. More information can be found at [www.psx.ca](http://www.psx.ca).

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

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

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

Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**ProspEx Resources Ltd.**  
 Consolidated Highlights  
 For the three months ended  
 (unaudited)

	March 31, 2007	March 31, 2006
<b>FINANCIAL (\$000's)</b>		
Oil and gas revenue	13,776	10,999
Net earnings (loss)	(1,794)	1,629
Cash flow	7,533	5,753
Total assets	170,081	144,812
Total net debt	44,098	41,132
Net earnings (loss) per share (\$ per share)		
basic	(0.03)	0.03
diluted	(0.03)	0.03
Cash flow per share (\$ per share) <sup>(1)</sup>		
basic	0.14	0.12
diluted	0.13	0.11
Weighted average common shares (000's)		
basic	53,807	48,938
diluted	56,297	51,221
<b>PRODUCTION VOLUMES</b>		
Natural gas (mcf/d)	16,757	13,890
Natural gas liquids (bbls/d)	290	212
Crude oil (bbls/d)	83	28
Total (boe/d) (6:1)	3,166	2,555
<b>SALES PRICES</b>		
Natural gas (\$/mcf)	8.02	7.80
Natural gas liquids (\$/bbl)	47.66	57.12
Crude oil (\$/bbl)	57.80	63.35
Total (\$/boe)	48.35	47.83
<b>NETBACKS (\$/boe)</b>		
Price	48.35	47.83
Financial instrument	(11.34)	0.63
Royalties	(9.85)	(8.36)
Operating costs	(7.38)	(6.34)
General and administrative	(2.24)	(2.25)
Total	17.54	31.51
<b>CAPITAL (\$000's)</b>		
Drilling and completions	9,317	19,024
Facilities	5,931	5,491
Land and lease	2,188	3,248
Seismic	704	632
Capitalized general and administrative	516	370
Office and computer assets	74	186
Total	18,730	28,951

(1) Cash flow is defined as cash flow from operations before changes in non-cash working capital to analyze operating results. Cash flow does not have a standardized measure prescribed by Canadian generally accepted accounting principles and therefore may not be comparable with calculations with similar measures for other companies.

## MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the historical financial and operating results of ProspEx Resources Ltd. ("ProspEx" and/or the "Company") as well as a prospective view of the Company's activities. The MD&A is for the three months ended March 31, 2007, was prepared as at May 3, 2007 and should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2006 and 2005 together with the notes related thereto.

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

### HIGHLIGHTS OF FOR THE FIRST QUARTER OF 2007

In the first quarter, ProspEx participated in eight (4.3 net) wells with a 76% net success rate. Highlights of this program included an exploration well drilled in the Deep Basin which is now onstream at a gross rate of approximately 17 million cubic feet ("mmcf") per day (30% ProspEx working interest), and extension of the productive Cardium trend at the Harmattan project with the drilling of two successful wells.

For the first quarter of 2007 production was 3,166 barrels of oil equivalent ("boe") per day. This production is 24% higher than the first quarter of 2006. First quarter production was constrained by facilities capacity issues and regulatory delays due to good production practice ("GPP") approvals. April 2007 production is estimated at approximately 3,800 boe per day. ProspEx expects production to be approximately 4,400 boe per day in late May after construction of new facilities in Harmattan is completed.

The outlook for natural gas prices improved during the quarter as cold weather in February resulted in lower natural gas storage volumes. The Company realized a price of \$8.02 per million cubic feet ("mcf"), a 3% gain compared to the prior year of \$7.80 per mcf and an 11% increase over the previous quarter.

Cash flow for the quarter rose 31% over the prior year to \$7.5 million, driven by higher production volumes. The Company showed a loss of \$1.8 million primarily due to mark to market reversals on financial instruments, in addition to the Company experiencing higher depletion, depreciation and accretion rates, operating costs and royalties compared to the prior year.

Net debt at quarter end was \$44.1 million, as a result of the planned capital activity from the winter drilling program. Over the second quarter, net debt is estimated to decline to approximately \$40 million due to higher levels of production and reduced capital spending during spring breakup.

### RESULTS OF OPERATIONS

#### Revenue

(\$000's)	Three months ended March 31, 2007	Three months ended March 31, 2006
Natural gas revenue	\$ 12,100	\$ 9,750
Oil and NGL revenue	1,676	1,249
Total operating revenue	13,776	10,999
Unrealized financial instrument (loss) gain	(3,230)	146
Total revenue	\$ 10,546	\$ 11,145

Operating revenue from natural gas, oil and natural gas liquids (“NGLs”) increased \$2.8 million or 25% from the first quarter of 2006, to \$13.8 million in the first quarter of 2007. Operating revenues were up due to production growth of 24%.

First quarter total revenue decreased slightly to \$10.5 million or 5% from 2006 to 2007, as an increase in operating revenues was more than offset by an unrealized financial instrument loss of \$3.2 million.

#### *Production*

Production for the first quarter of the year averaged 3,166 boe per day, an increase of 24% over the prior year of 2,555 boe per day. Production growth in West Central Alberta and the Deep Basin areas was partially offset by natural production declines in the Medallion area.

ProspEx's overall production for the first quarter of 2007 was approximately 88% natural gas.

#### *Average Selling Price*

	Three months ended March 31, 2007	Three months ended March 31, 2006
Natural gas (\$/mcf)	\$ 8.02	\$ 7.80
Oil and NGL (\$/bbl)	49.92	57.82
Average realized price (\$/boe)	48.35	47.83
Unrealized financial instrument (loss) gain (\$/boe)	(11.34)	0.63
Total average price (\$/boe)	\$ 37.01	\$ 48.46

Realized natural gas prices for the first quarter of 2007 averaged \$8.02 per mcf, up 3% from \$7.80 per mcf realized in the first quarter of 2006. Realized natural gas prices compared to the prior quarter were up 11% as a result of an improved outlook for future natural gas prices. During the quarter, the Company realized \$1.0 million in financial instrument gains as 10,000 Gigajoules (“GJs”) per day were subject to natural gas collars with floors ranging from \$8.00 to \$8.50 per GJ.

#### *Financial Instruments*

At March 31, 2007, ProspEx had collars for 9,000 GJs per day from April 1, 2007 to October 31, 2007, with a floor price of \$7.00 per GJ and ceilings ranging from \$8.05 to \$9.07 per GJ at AECO. The fair value of these financial instruments at March 31, 2007 was a loss of \$0.1 million.

#### **Royalty Expense**

Royalties totaled \$2.8 million or 20% of oil and gas revenue for the quarter ended March 31, 2007. This compares to \$1.9 million or 18% of revenue for the first quarter of 2006. Royalties as a percentage of revenue continues to rise as the growth in production is from areas that attract higher royalty rates.

For 2007, the royalty rate is expected to be approximately 24%.

#### **Operating Costs**

First quarter 2007 operating costs were \$2.1 million or \$7.38 per boe, and have risen from \$1.5 million or \$6.34 per boe compared to the first quarter of 2006. Costs are up as a result of increased production from areas that have a higher cost structure along with general inflationary pressures. Total operating costs and operating costs per boe are consistent with the prior quarter.

Operating costs are expected to be approximately \$7.25 per boe for 2007.

### **General and Administrative Expenses**

Total general and administration costs ("G&A") for the quarter were \$1.2 million. ProspEx follows the full-cost method of accounting for its petroleum and natural gas operations and as such approximately 45% of exploration and development related G&A costs were capitalized leaving \$0.6 million expensed or \$2.24 per boe for the quarter. Net G&A expenses of \$0.6 million or \$2.24 per boe for the first quarter of 2007 compare to \$0.5 million or \$2.25 per boe in the same period of 2006.

G&A costs of \$1.75 per boe are anticipated for 2007.

### **Interest and Bank Charges**

Interest and bank charges in 2007 resulted in an expense of \$0.4 million compared to \$0.2 million in the first quarter of 2006. This increase reflects the higher utilization of credit facilities in 2007.

### **Depletion, Depreciation and Accretion**

Depletion, depreciation and accretion for the quarter was \$6.8 million or \$23.86 per boe. This is an increase compared to the first quarter of 2006 of \$4.3 million or \$18.65 per boe. This rate on a per barrel basis rose as capital expenses incurred in the current cost environment were higher than the historical costs. It is anticipated that the depletion, depreciation and accretion rate will continue to rise marginally as the capital program is executed within the present cost environment.

### **Stock-Based Compensation**

Stock-based compensation is accounted for using the fair-value method. Under the fair-value method of accounting, this compensation expense is recorded in the earnings statement over the vesting period and 50% of the cost is capitalized. Consistent with costs incurred in the first quarter of 2006, total stock-based compensation costs were \$0.5 million of which 50% was capitalized.

### **Income Taxes**

ProspEx did not incur any income taxes in the first quarter of 2007. The Company's future income taxes for the period resulted in a recovery of \$0.6 million.

ProspEx has approximately \$146 million of income tax pools at March 31, 2007 and does not anticipate being cash taxable in 2007.

ProspEx had committed to incur \$14.5 million in qualifying expenditures related to flow-through share financings by December 31, 2007. The Company believes that it has met this commitment during the first quarter of 2007 and the income tax pools of \$146 million reflects the renouncement of these expenditures.

### **Net Income and Cash Flow**

During the first quarter of 2007, the Company incurred a net loss of \$1.8 million compared to net earnings of \$1.6 million in the prior year. Net earnings decreased as higher revenues from increased production were offset by the reversal of the unrealized financial instrument gain recognized in 2006 and higher depletion rates.

Cash flow for the first quarter rose 31% from \$5.8 million to \$7.5 million compared to the first quarter of 2006 due to higher production. On a per share basis, cash flow was \$0.13 per diluted share compared to \$0.11 per diluted share in 2006.

### Capital Expenditures

Capital expenditures were \$18.7 million during the first quarter of 2007, compared to \$29.0 million in the first quarter of 2006. Details of these expenditures for the period ended March 31, were as follows:

(\$000's)	Three months ended March 31, 2007	Three months ended March 31, 2006
Drilling and completions	\$ 9,317	\$ 19,024
Facilities	5,931	5,491
Land and lease	2,188	3,248
Seismic	704	632
Capitalized G&A	516	370
Other capital assets	74	186
<b>Total capital expenditures</b>	<b>\$ 18,730</b>	<b>\$ 28,951</b>

During the period, the Company incurred \$9.3 million in drilling and completion expenditures to drill eight gross (4.3 net) wells. Of the \$2.2 million in land expenditures, virtually all was spent in the West Central Alberta area. In addition, the Company incurred \$5.9 million in facilities construction, of which \$2.6 million related to the Harmattan oil battery project.

### Liquidity & Capital Resources

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

	(\$000's)
Working capital deficiency	\$ (4,547)
Long-term debt	(39,551)
Bank facilities available	50,000
<b>Total capital resources</b>	<b>\$ 5,902</b>

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

#### *Bank Debt*

At March 31, 2007, the Company had a total credit facility of \$50 million. The facility is available by way of Canadian and US dollar prime rate based loans, LIBOR advances, bankers' acceptances and letters of credit. The credit facility is fully revolving until June 30, 2007 and may be extended at the mutual agreement of ProspEx and its lender for an additional year. If the credit facility is not extended, a balloon payment is required on July 1, 2008. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

#### *Share Capital*

As at March 31, 2007, ProspEx had 53,840,111 common shares, 2,857,813 warrants, 435,994 special performance units and 4,138,725 options issued and outstanding.

As at May 3, 2007, ProspEx had 53,911,981 common shares, 2,857,813 warrants, 435,994 special performance units and 4,331,855 options issued and outstanding.

## Commitments

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

Payments due (\$000's)	2007	2008	2009	2010	2011	Thereafter
Long-term debt	-	39,551	-	-	-	-
Building lease	265	353	29	-	-	-
Drilling rig contract	3,350	1,529	-	-	-	-
Process fees	284	300	225	169	27	-
Seismic purchase	110	-	-	-	-	-
Other	5	4	-	-	-	-
<b>Total</b>	<b>4,014</b>	<b>41,737</b>	<b>254</b>	<b>169</b>	<b>27</b>	<b>-</b>

ProspEx has met its commitment to incur \$14.5 million in qualifying expenditures related to the flow-through share financings in 2007.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## Summary of Quarterly Results

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

	2005		2006				2007	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Financial (\$000's, except per share amounts)</b>								
Oil and gas revenue	7,447	9,103	12,496	10,999	12,375	13,743	13,255	13,766
Net earnings (loss)	1,829	6,325	3,850	1,629	868	440	2,143	(1,794)
Per share - basic	0.04	0.13	0.08	0.03	0.02	0.01	0.04	(0.03)
- diluted	0.03	0.13	0.08	0.03	0.02	0.01	0.04	(0.03)
<b>Average Daily Production</b>								
Oil (bbls/d)	21	32	28	28	96	67	184	83
NGL (bbls/d)	52	96	91	212	287	515	276	290
Natural Gas (mcf/d)	10,963	11,013	11,651	13,890	17,948	18,335	16,221	16,757
Total (boe/d)	1,901	1,963	2,062	2,555	3,375	3,639	3,164	3,166
<b>Overall Netbacks (\$/boe)</b>								
Price <sup>(1)</sup>	43.05	50.40	65.89	47.83	40.30	41.05	45.54	48.35
Royalties	(6.24)	(8.59)	(10.15)	(8.36)	(7.12)	(8.46)	(7.16)	(9.85)
Operating Cost	<u>(5.42)</u>	<u>(5.14)</u>	<u>(6.77)</u>	<u>(6.34)</u>	<u>(5.68)</u>	<u>(8.21)</u>	<u>(7.39)</u>	<u>(7.38)</u>
Operating Netback	<u>31.39</u>	<u>36.67</u>	<u>48.97</u>	<u>33.13</u>	<u>27.50</u>	<u>24.38</u>	<u>30.99</u>	<u>31.12</u>

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

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **Accounting Standards Adopted**

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

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

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

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

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

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

### **Disclosure Controls and Policies**

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

### **Internal Controls over Financial Reporting**

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

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

## Non - GAAP Measures

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

1. Cash flow is defined as cash flow from operations before the change in non-cash working capital. The MD&A contains the term "cash flow" which should not be considered an alternative to, or more meaningful than "cash flow from operations" as determined in accordance with GAAP. The Company considers cash flow to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund capital projects and to repay debt. Cash flow presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Cash flow per share is calculated using the same weighted average number of common shares for the period as used in calculating the net earnings per share calculation.
2. Barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet ("mcf") of gas to one barrel of oil. Boe's may be misleading if used in isolation. A boe conversion ratio of one barrel of oil to six mcf of gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.
3. Netbacks equal total revenue less royalties, operating costs and general and administrative costs on a boe basis. Total boes are calculated by multiplying the daily production by the number of days in the period.

## Forward-looking statements

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

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

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

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

(Stated in thousands of dollars)	March 31, 2007	December 31, 2006
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 13,427	\$ 13,220
Prepaid expenses	524	746
Unrealized financial instrument gain	-	3,081
	<u>13,951</u>	<u>17,047</u>
Property, plant and equipment, net	155,193	142,649
Asset held for resale (note 2)	937	937
Future income tax asset (note 3)	-	1,103
	<u>\$ 170,081</u>	<u>\$ 161,736</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 18,349	\$ 29,990
Unrealized financial instrument loss	149	-
	<u>18,498</u>	<u>29,990</u>
Long term debt (note 4)	39,551	16,766
Asset retirement obligation	4,131	4,157
Future income tax liability (note 3)	2,815	-
Total liabilities	<u>64,995</u>	<u>50,913</u>
<b>Shareholders' Equity</b>		
Share capital (note 5)	83,046	87,459
Contributed surplus	4,818	4,348
Retained earnings	17,222	19,016
	<u>105,086</u>	<u>110,823</u>
	<u>\$ 170,081</u>	<u>\$ 161,736</u>

See accompanying notes to consolidated financial statements.

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

(Stated in thousands of dollars, except per share amounts)

	2007	2006
Revenue		
Oil and gas	\$ 13,776	\$ 10,999
Unrealized financial instrument gain (loss)	(3,230)	146
Royalties	(2,807)	(1,923)
	<u>7,739</u>	<u>9,222</u>
Expenses		
Operating	2,103	1,458
Depletion, depreciation and accretion	6,797	4,289
General and administrative	639	518
Interest and bank charges	397	187
Stock-based compensation	235	252
	<u>10,171</u>	<u>6,704</u>
Earnings (loss) before taxes	<u>(2,432)</u>	<u>2,518</u>
Taxes (note 3)		
Capital	-	20
Future income taxes (recovery)	(638)	869
	<u>(638)</u>	<u>889</u>
Net earnings (loss) for the period	(1,794)	1,629
Retained earnings, beginning of year	<u>19,016</u>	<u>13,936</u>
Retained earnings (loss), end of period	<u>\$ 17,222</u>	<u>\$ 15,565</u>
Net earnings per share		
Basic	<u>\$ (0.03)</u>	<u>\$ 0.03</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.03</u>

See accompanying notes to consolidated financial statements.

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

(Stated in thousands of dollars)

	2007	2006
<b>Operations</b>		
Net earnings (loss) for the period	\$ (1,794)	\$ 1,629
Items not involving cash		
Depletion, depreciation and accretion	6,797	4,289
Stock-based compensation	235	252
Future income taxes (recovery)	(638)	869
Unrealized financial instrument loss (gain)	3,230	(146)
Asset retirement expenditures	(297)	(1,140)
	<u>7,533</u>	<u>5,753</u>
Changes in non-cash working capital	(6,168)	(6,606)
	<u>1,365</u>	<u>(853)</u>
<b>Financing</b>		
Issuance of shares	39	(60)
Increase in long-term debt	22,785	29,246
	<u>22,824</u>	<u>29,186</u>
<b>Investments</b>		
Exploration and development expenditures	(18,656)	(28,765)
Other capital assets	(74)	(186)
	<u>(18,730)</u>	<u>(28,951)</u>
Changes in non-cash working capital	(5,459)	618
	<u>(24,189)</u>	<u>(28,333)</u>
Change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of period	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2007 and 2006  
(unaudited)

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

The interim unaudited consolidated financial statements have been prepared by management following the same accounting policies and methods of computation as the audited consolidated financial statements for the period ended December 31, 2006 except as described below. Preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates. The disclosures included below are incremental to those included with the annual consolidated financial statements except as disclosed below. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2006.

### 1. CHANGE IN ACCOUNTING POLICY

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

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

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

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

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

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

### 2. ASSET HELD FOR RESALE

During 2006, the Company had \$0.9 million of equipment assembled. The Company expects that this equipment will be sold in 2007 at its approximate cost resulting in no loss or gain on the disposition.

### 3. FUTURE INCOME TAXES

The provision for future income taxes differs from the amount computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

(\$000's)	Three months ended March 31, 2007	Three months ended March 31, 2006
Earnings (loss) before taxes	\$ (2,432)	\$ 2,518
Rate	32.12%	35.62%
Computed expected provision for future income taxes	(781)	897
Increase (decrease) in taxes resulting from:		
Non-deductible crown payments	-	131
Resource allowance	-	(217)
Stock-based compensation	75	180
Effect of change in tax rate	68	(56)
Other	-	(66)
	(638)	869
Capital taxes	-	20
Income tax expense (recovery)	\$ (638)	\$ 889

The components of the future income tax liability at March 31, 2007 are as follows:

(\$000's)	
Tax assets (liabilities):	
Property, plant and equipment	(3,335)
Asset retirement obligation	468
Share issue costs	552
	(2,315)
Valuation allowance	(500)
Future income tax liability	(2,815)

At March 31, 2007, the Company had estimated tax deductions available to reduce future taxable income of \$146.4 million (2006 – \$133.0 million). ProspEx has met the commitment to incur \$14.6 million in qualifying Canadian exploration expenditures related to the flow-through share financing by December 31, 2007.

### 4. LONG-TERM DEBT

At March 31, 2007 the Company had a \$50.0 million credit facility with a Canadian chartered bank. The facility is available by way of Canadian and US dollar prime rate based loans, LIBOR advances, bankers' acceptances and letters of credit. The credit facility is fully revolving until June 30, 2007 and may be extended at the mutual agreement of ProspEx and its lender for an additional year. If the credit facility is not extended, a balloon payment is required on July 1, 2008. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

## 5. SHARE CAPITAL

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

	March 31, 2007		March 31, 2006	
	Number of Shares/Warrants (000's)	Amount (\$000's)	Number of Shares/Warrants (000's)	Amount (\$000's)
<b>Common shares</b>				
Balance at the beginning of the year	53,790	85,681	48,932	65,214
Flow-through shares tax adjustment	-	(4,461)	-	(2,048)
Shares issued for warrants	50	100	10	20
Issue costs, net of future tax reduction	-	(21)	-	(49)
Balance at the end of the period	53,840	81,299	48,942	63,137
<b>Common share performance warrants</b>				
Balance at the beginning of the year	2,908	1,778	3,032	1,853
Exercised	(50)	(31)	(10)	(6)
Balance at the end of the period	2,858	1,747	3,022	1,847
<b>Share Capital at end of period</b>		<b>83,046</b>		<b>64,984</b>

### (b) Contributed Surplus

(\$000's)	2007	2006
Balance at the beginning of the year	\$ 4,348	\$ 2,951
Stock-based compensation	470	505
Balance at the end of the period	\$ 4,818	\$ 3,456

### (c) Stock Options and Special Performance Units

There were no changes in the number of outstanding special performance units during the first three months of 2006 and 2007.

Changes in outstanding stock options during the periods ended March 31, are summarized below:

	2007		2006	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding at beginning of year	3,354	\$ 3.49	2,314	\$ 3.27
Granted	785	4.07	666	3.85
Outstanding at the end of the period	4,139	\$ 3.60	2,980	\$ 3.40

The fair value of options granted during the first three months of 2007 was \$1.3 million (2006 - \$1.0 million) using the Black-Scholes option pricing model with the following weighted average assumptions for grants as follows:

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

The estimated fair values of the options and the special performance units are being amortized to expense over the vesting period. \$0.2 million (2006 - \$0.3 million) of stock and unit-based compensation was recorded against income in 2007 and \$0.2 million (2006 - \$0.3 million) was capitalized.

**(d) Per Share Amounts**

In computing diluted net earnings per share for the period ended March 31, 2007, 2,490,143 (2006 - 2,282,900) common shares were added to the weighted average number of common shares outstanding of 53,806,716 (2006 - 48,938,017). A total of 2,081,500 (2006 - 30,000) options were excluded from the diluted calculations as they were not dilutive.

**6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

In addition to physical swap contracts, the Company uses derivative financial instruments to manage its exposure to volatility in commodity prices. These financial instruments are not used for trading or other speculative purposes. As all the derivative financial instruments entered into by the Company have not been formally designated as hedges, they are recorded at fair value at inception. Realized gains or losses on these physical and financial instruments are reflected as adjustments to the related revenue when the gain or loss is realized; unrealized gains and losses on these instruments are recognized as adjustments to the related revenue at the end of each reporting period. The estimated fair value of these financial instruments and physical contracts is based on quoted market prices, or if quotes are not available, third party market indications and forecasts are used. During the period ending March 31, 2007 a \$1.0 million (2006 - \$nil) gain was realized on physical and financial swap contracts. Financial instruments and physical contracts in place at March 31, 2007 are summarized below.

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

The majority of the Company's accounts receivable are with customers and joint-venture partners in the oil and gas industry and are subject to normal industry credit risks. Customers and joint-venture partners are subject to an internal credit review to minimize the risk of non-payment.

The Company is exposed to a floating rate of interest on its long-term debt. The Company is also exposed to foreign currency fluctuations as oil prices received are referenced to US dollar denominated prices and natural gas and natural gas liquids prices are influenced by US dollar denominated markets. The Company has no financial contracts in place at March 31, 2007 to manage the foreign currency and interest rate exposure.

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

## 7. ADDITIONAL DISCLOSURES

Net cash interest paid during the quarter was \$459,060 (2006 - \$159,095). Cash taxes paid during the period was \$nil (2006 – \$nil).

### Contact Information

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