

MANAGEMENT'S REPORT

MANAGEMENT HAS PREPARED THE CONSOLIDATED FINANCIAL STATEMENTS in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. Management has also prepared the financial information presented elsewhere in the annual report and ensured that it is consistent with information in the consolidated financial statements.

ProspEx Resources Ltd. maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Audit Committee is appointed by the Board and is composed of Directors who are not employees of the Company. The Audit Committee meets periodically with management and with the external auditors to satisfy themselves that management responsibilities are being properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of external auditors.

KPMG LLP, the external auditors, has audited the consolidated financial statements in accordance with the auditing standards generally accepted in Canada on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.



John W. Rossall
President and Chief Executive Officer



George D.K. Yee
Vice President, Finance & Chief Financial Officer

Calgary, Canada
March 14, 2008

AUDITORS' REPORT

TO THE SHAREHOLDERS OF PROSPEx RESOURCES LTD.

We have audited the consolidated balance sheets of ProspEx Resources Ltd. as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss), comprehensive earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

March 14, 2008

CONSOLIDATED BALANCE SHEETS

As at December 31,

(\$000s)

	2007	2006
Assets		
Current assets		
Accounts receivable	\$ 12,900	\$ 13,220
Prepaid expenses	988	746
Unrealized financial instrument gain	214	3,081
	14,102	17,047
Property, plant and equipment, net (note 3)	161,663	142,649
Asset held for resale (note 4)	–	937
Future income tax asset (note 5)	–	1,103
Total assets	\$ 175,765	\$ 161,736
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,761	\$ 29,990
Long-term debt (note 6)	28,846	16,766
Asset retirement obligation (note 7)	5,201	4,157
Future income tax liability (note 5)	3,214	–
Total liabilities	60,022	50,913
Shareholders' Equity		
Share capital (note 8)	92,204	87,459
Contributed surplus (note 8)	5,614	4,348
Retained earnings	17,925	19,016
Total shareholders' equity	115,743	110,823
	\$ 175,765	\$ 161,736

Subsequent events (note 12)

See accompanying notes to consolidated financial statements.

On Behalf of the Board of Directors:



John W. Rossall
Director



Kyle D. Kitagawa
Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS), COMPREHENSIVE EARNINGS (LOSS) AND RETAINED EARNINGS

For the Years Ended December 31,
(\$000s, except per share amounts)

	2007	2006
Revenue		
Oil and gas	\$ 63,534	\$ 51,501
Unrealized financial instrument gain (loss)	(2,867)	3,132
Royalties	(9,343)	(9,024)
	51,324	45,609
Expenses		
Operating	11,341	8,104
Transportation	1,343	1,129
Depletion, depreciation and accretion	33,889	23,758
General and administrative	3,080	2,406
Interest and bank charges	2,047	1,133
Stock-based compensation	1,156	1,181
	52,856	37,711
Earnings (loss) before income taxes	(1,532)	7,898
Income Taxes <i>(note 5)</i>		
Capital	-	20
Future (reduction)	(441)	2,798
	(441)	2,818
Net earnings (loss) and comprehensive earnings (loss) for the year	(1,091)	5,080
Retained earnings, beginning of year	19,016	13,936
Retained earnings, end of year	\$ 17,925	\$ 19,016
Net earnings (loss) per share		
Basic	\$ (0.02)	\$ 0.10
Diluted	\$ (0.02)	\$ 0.10

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

(\$000s)

	2007	2006
Operations		
Net earnings (loss) for the year	\$ (1,091)	\$ 5,080
Items not involving cash		
Depletion, depreciation and accretion	33,889	23,758
Stock-based compensation	1,156	1,181
Future income taxes (reduction)	(441)	2,798
Unrealized financial instrument loss (gain)	2,867	(3,131)
Asset retirement expenditures	(383)	(1,724)
	35,997	27,962
Changes in non-cash working capital	(901)	(3,874)
	35,096	24,088
Financing		
Issuance of shares	8,020	21,045
Increase in long-term debt	12,080	15,713
	20,100	36,758
Investing		
Exploration and development expenditures	(48,550)	(73,464)
Deposit on property acquisition (note 12)	(1,175)	-
Proceeds of property disposition	-	10,842
Expenditure on asset held for resale	937	(937)
Other capital expenditures	(160)	(269)
	(48,948)	(63,828)
Changes in non-cash working capital	(6,248)	2,982
	(55,196)	(60,846)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006.

1. SIGNIFICANT ACCOUNTING POLICIES

ProspEx Resources Ltd. (“ProspEx” or the “Company”) is engaged in the acquisition, exploration, development and production of oil and natural gas in Canada. ProspEx was incorporated on August 13, 2004 and commenced operations on October 1, 2004 when certain assets of Esprit Exploration Ltd. were transferred to ProspEx under a Plan of Arrangement.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. A substantial portion of the Company’s activities are conducted jointly with others and the consolidated financial statements reflect only the Company’s proportionate interest in such activities.

(b) Property, Plant and Equipment

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves, including asset retirement costs, are capitalized. Such costs include lease acquisition, geological and geophysical analysis, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.

Capitalized costs and estimated costs of future development of proved undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proved reserves before royalties as determined by independent engineers. The costs of undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Oil and gas reserves are converted to equivalent units using their relative energy content.

Oil and gas assets are evaluated in each reporting period to confirm that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk-free rate.

Amortization of capital assets not related to oil and gas assets is provided using the declining balance method at a rate from 20 to 50 percent per annum. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases.

(c) Asset Retirement Obligation

The Company records the fair value of legal obligations associated with the retirement of long-lived tangible assets, such as producing well sites, in the period in which they are incurred and a corresponding increase in the carrying amount of the related long-lived asset. The liability accretes until the Company expects to settle the retirement obligation. The asset retirement costs are depleted using the unit of production method. Actual costs to retire tangible assets are deducted from the liability as incurred.

(d) Income Taxes

The Company follows the liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the amounts reported in the financial statements and the tax basis of the assets and liabilities, and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse.

(e) Stock-based Compensation

Stock options and special performance units granted have been accounted for based on the fair value method. The fair value is measured at the grant date and charged to earnings or capital assets over the vesting period with a corresponding increase in contributed surplus. For awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period. Consideration paid to the Company on exercise of all options is credited to share capital. When stock options and special performance units are exercised, contributed surplus is reduced by the fair value originally attributed to them.

(f) Financial Instruments

In addition to the 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.

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

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

(g) Earnings Per Share

The Company uses the treasury stock method to determine the dilutive effect of outstanding stock options, special performance units and warrants. Basic and diluted earnings per share are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Anti-dilutive options and warrants are excluded from the calculation.

(h) Revenue Recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when title passes.

2. CHANGE IN ACCOUNTING POLICY

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

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

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

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

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

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

3. PROPERTY, PLANT & EQUIPMENT

(\$000s)	2007	2006
Exploration and development properties	\$ 229,213	\$ 176,769
Other	878	719
	230,091	177,488
Less accumulated depletion, depreciation and amortization	(68,428)	(34,839)
Total property, plant and equipment	\$ 161,663	\$ 142,649

At December 31, 2007, oil and gas properties included \$19.6 million (2006 – \$20.0 million) of unproved properties that have been excluded from the depletion calculation. Future development costs related to proved undeveloped reserves of \$22.1 million (2006 – \$12.2 million) are included in the depletion calculation.

In 2007 the Company capitalized \$4.2 million (2006 – \$3.7 million) of overhead and stock-based compensation directly related to acquisition, exploration and development activities.

The Company performed a ceiling test calculation at December 31, 2007, resulting in the undiscounted cash flows from proved reserves and the lower of cost and market of unproved properties exceeding the carrying values of oil and gas assets. The prices used in the ceiling test evaluation of the Company's oil and gas assets are summarized below:

	Gas (\$ per thousand cubic feet) ¹	Natural gas liquids (\$ per barrel) ¹	Oil (\$ per barrel) ²
2008	7.02	66.66	92.45
2009	7.75	64.14	87.80
2010	8.13	63.18	86.32
2011	8.16	63.57	86.89
2012	8.17	63.00	86.04
2013	7.60	57.94	81.10
2014	7.80	58.08	81.10
2015	7.97	58.21	81.10
2016	8.14	58.34	81.12
2017	8.31	59.54	82.76
2018	8.48	60.73	84.42
2019+	+2%	+2%	+2%

¹ Weighted average plantgate price. ² Weighted average wellhead price.

4. ASSET HELD FOR RESALE

At December 31, 2006 the Company had \$0.9 million of equipment assembled that it intended to sell. The Company no longer intends to sell this equipment, as it is expected that this equipment will be utilized in the Company's field operations.

5. FUTURE INCOME TAXES

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

(\$000s)	2007	2006
Earnings (loss) before income taxes	\$ (1,532)	\$ 7,898
Rate (%)	32.12	34.50
Computed expected (reduction) provision for future income taxes	(492)	2,725
Increase (decrease) in taxes resulting from:		
Non-deductible crown payments	–	835
Resource allowance	–	(914)
Stock-based compensation	371	407
Effect of change in tax rate	(458)	91
Alberta royalty deduction pool additions	–	(251)
Other	138	(95)
	(441)	2,798
Capital taxes	–	20
Income tax expense (reduction)	\$ (441)	\$ 2,818

The components of the future income tax asset (liability) at December 31 are as follows:

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

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

6. LONG-TERM DEBT

At December 31, 2007 the Company had a \$60.0 credit facility with a Canadian chartered bank. The facility is available by way of Canadian and U.S. dollar prime rate based loans, LIBOR advances, bankers' acceptances and letters of credit. The credit facility is fully revolving until June 30, 2008 and may be extended at the mutual agreement of ProspEx and its lender for an additional year. If the credit facility is not extended, a full payment is required on July 1, 2009. This facility is secured by a \$200.0 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

7. ASSET RETIREMENT OBLIGATION

The Company has estimated the net present value of its total asset retirement obligation at December 31, 2007 to be \$5.2 million (2006 – \$4.2 million) based on a total future liability of \$19.0 million. The total future liability was estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of when the costs will be incurred. These payments are expected to be made over the next 34 years with the majority of costs incurred between 2037 and 2046. A seven percent discount rate and two percent inflation rate were used to calculate the present value of the asset retirement obligation.

(\$000s)	2007	2006
Balance at the beginning of the year	\$ 4,157	\$ 5,762
Liabilities incurred	560	450
Change in assumptions	567	(674)
Accretion expense	300	343
Liabilities settled	(383)	(1,724)
Balance at the end of the year	\$ 5,201	\$ 4,157

8. SHARE CAPITAL

(a) Authorized

An unlimited number of common shares and non-voting common shares and an unlimited number of preferred shares are authorized for issuance.

(b) Common Shares and Common Share Performance Warrants Issued

	2007		2006	
	Number of Shares/Warrants (000s)	Amount (\$000s)	Number of Shares/Warrants (000s)	Amount (\$000s)
Common shares				
Balance at the beginning of the year	53,790	\$ 85,681	48,932	\$ 65,214
Issued on exercise of options	72	243	22	71
Flow-through shares issued – May 5, 2006	–	–	1,220	7,015
Flow-through shares issued – November 1, 2006	–	–	1,400	7,560
Flow-through shares issued – December 13, 2007	2,170	8,029	–	–
Shares issued – November 1, 2006	–	–	1,800	7,560
Flow-through shares tax adjustment	–	(4,461)	–	(2,047)
Shares issued under special performance unit plan	252	3	294	3
Shares issued on exercise of warrants	169	353	122	245
Issue costs, net of future tax reduction	–	(351)	–	(905)
Stock options and special performance units exercised	–	1,046	–	965
Balance at the end of the year	56,453	\$ 90,543	53,790	\$ 85,681
Common share performance warrants				
Balance at the beginning of the year	2,908	\$ 1,778	3,032	\$ 1,853
Exercised	(169)	(104)	(122)	(75)
Cancelled	(23)	(13)	(2)	–
Balance at the end of the year	2,716	1,661	2,908	1,778
Share Capital at end of year		\$ 92,204		\$ 87,459

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

The estimated fair value of the warrants was recognized as a reduction of the common share capital with a corresponding increase to common share performance warrants.

(c) Contributed Surplus

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

(d) Stock Options and Special Performance Units

ProspEx has a stock option plan for directors, officers and employees that provides for the granting of options to acquire common shares. Under the terms of the plan, options normally vest equally over a three-year period, and expire five years after the date of grant. At December 31, 2007, options to acquire 5.6 million (2006 – 4.1 million) common shares were authorized for issuance under the stock option plan. Changes in outstanding options during the year ended December 31, 2007 and 2006 are summarized below:

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

ProspEx had a special performance unit (“SPU”) plan for directors, officers and employees. Over three years following the grant, one-third of the SPUs vest on the anniversary of the issuance subject to minimum share performance requirements. Once SPUs have vested they may be exercised in whole or in part, at any time within 30 days of the vesting date. Changes in SPUs during the years ended December 31, 2007 and 2006 are as follows:

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

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

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

The estimated fair value of stock options granted in 2007 was \$2.7 million (2006 – \$1.8 million). This estimated fair value is being amortized to earnings and capitalized to property, plant and equipment over the vesting period. A total of \$1.2 million (2006 – \$1.2 million) of stock and unit-based compensation was recorded against income in 2007 and \$1.2 million (2006 – \$1.2 million) was capitalized.

(e) Per Share Amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by this amount. In computing diluted net earnings per share for the year ended December 31, 2007, a total of 2,223,429 (2006 – 2,625,929) common shares were added to the weighted average number of common shares outstanding of 54,094,873 (2006 – 50,378,377). A total of 4,655,917 (2006 – 1,096,500) options were excluded from the diluted calculations as they were not dilutive.

9. 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 financial instruments are reflected as adjustments to the related revenue when the gain or loss is realized; unrealized gains and losses on these physical and financial 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.

Type	Amount	Term	Price	Type
Collar	2,500 GJ/d	November 1, 2007 - March 31, 2008	\$7.00 - \$8.40 at AECO (\$Cdn/GJ)	Physical
Collar	2,500 MMBTU/d	November 1, 2007 - March 31, 2008	\$6.76 - \$8.40 at AECO (\$US/mmbtu)	Financial

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 U.S. dollar denominated prices and natural gas and natural gas liquids prices are influenced by U.S. dollar denominated markets. The Company has no financial contracts in place at December 31, 2007 to manage the foreign currency and interest rate exposure.

The fair values of the financial instruments, including accounts receivable, assets held for resale, accounts payable and accrued liabilities and long-term debt approximate their carrying values.

Subsequent to the year end the Company entered into the following contracts:

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

10. ADDITIONAL DISCLOSURES

Net interest paid during the year was \$2.7 million (2006 – \$1.4 million). Income taxes paid during the year were \$nil (2006 – \$nil).

11. COMMITMENTS

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

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

ProspEx has committed to incur \$8.0 million in qualifying expenditures related to the December 2007 common share issuance.

12. SUBSEQUENT EVENTS

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

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

13. RECLASSIFICATION

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