



ProspEx Announces 2009 First Quarter Results

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

CALGARY, May 7, 2009 / CNW / - ProspEx Resources Ltd. ("ProspEx" or the "Company") announces its financial and operating results for the three months ended March 31, 2009.

HIGHLIGHTS

- Production for the first quarter averaged 3,807 barrels of oil equivalent ("boe") per day, 6% increase compared to the fourth quarter of 2008 as new wells were brought on stream in the Kakwa and Gold Creek areas, and facility run times improved compared to the fourth quarter.
- Capital expenditures for exploration and development (before acquisitions and dispositions) were \$5.6 million during the first quarter of 2009, in line with cash flow. The Company participated in three (1.5 net) wells, all in the Deep Basin, including a successful delineation well on the East Kakwa trend.
- Cash flow before changes in non-cash working capital items for the quarter was \$5.7 million, a decrease of 38% compared to the prior year due to lower commodity prices.
- Net debt, excluding after tax unrealized financial instrument gains or losses was \$49.3 million at March 31, 2009. Net debt declined by \$2 million over the quarter due to the disposition of non-core assets in Wapiti.

MESSAGE TO SHAREHOLDERS

ProspEx is currently operating in an environment of unprecedented uncertainty and distress in equity, credit and commodity markets. Natural gas prices remain low, driven by high natural gas storage inventories, strong production levels in the United States, LNG imports, and reduced demand for natural gas as a result of the global economic downturn. The Company believes these factors suggest prices will stay low for the balance of 2009, and potentially longer. In light of this view, as well as the uncertainty in credit and equity markets, ProspEx intends to adopt a more conservative approach in managing the Company's finances, including restricting exploration and development capital spending to be approximately equal to cash flow.

The Canadian natural gas industry has always been a very cyclical business. While the current downturn may be more severe than many in the past, ProspEx is confident that in time, the cycle will turn. ProspEx will work to take advantage of opportunities and position the Company to prosper as the business environment improves, while managing the Company's finances prudently in the interim.

ProspEx's capital spending priorities continue to focus on capturing and proving up new opportunities that are anticipated to generate repeatable prospect inventory with economies of scale. In the current business environment drilling to bring new production on stream in the short term is less attractive than capturing new opportunities, although to the extent possible, the Company will seek to maximize the benefits available under the royalty incentives announced by the Province of Alberta on March 3, 2009.

OPERATIONAL REVIEW

Capital Program

Capital expenditures for exploration and development (before acquisitions and dispositions) were \$5.6 million during the first quarter of 2009. As previously disclosed, the Company disposed of certain non-core properties in the Wapiti

area. These properties consist of four (2.0 net) producing wells, with net production of approximately 30 boe per day and 3,160 net acres of undeveloped land. The consideration paid to the Company was \$2.1 million, subject to closing adjustments. Including proceeds from this disposition, total net capital spending in the first quarter was \$3.6 million.

ProspEx participated in three (1.5 net) wells in the first quarter, all of which were located in the Deep Basin area. At West Kakwa, the Company drilled a delineation well (100% working interest) four kilometers from an exploratory well drilled in the fourth quarter of 2008. Both of these wells encountered a thick but low-porosity Falher channel. Given the better reservoir quality encountered to date and shallower drilling depths in East Kakwa, ProspEx's initial focus will be on delineation and horizontal development of East Kakwa.

At East Kakwa, ProspEx drilled a successful (0.2 net) well that extended the East Kakwa trend to the southeast. This well was recently brought on production at an initial rate of approximately one million cubic feet ("mmcf") per day (200 thousand cubic feet ("mcf") per day net to ProspEx).

These Kakwa drilling results continue to advance the Company's efforts to develop a repeatable drilling program, potentially utilizing horizontal drilling with multi-stage fracturing techniques. Year end 2008 reserves bookings for the East Kakwa wells were based on drainage areas of only 80 to 180 acres, indicating the potential for infill drilling in sections where an initial well has already been drilled. Based on existing wells and interpretation of 3D seismic, ProspEx has mapped 16 (8 net) incremental drilling locations (both infill and trend extension) on lands controlled by the Company, assuming a drilling density of two horizontal wells per section. The focus of the 2009 program is expected to be on continued delineation of the trend, along with a pilot test of horizontal drilling utilizing multi-stage fracturing techniques. ProspEx has received regulatory approval to drill up to four wells per section in 16 sections of land in the East Kakwa trend.

Also in the Deep Basin, one (0.25 net) partner operated well was drilled in the first quarter of 2009 at Gold Creek. This well came on stream in the first quarter at an initial rate of one mmcf per day (250 mcf per day net to ProspEx).

Production

Production (boe/d)	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
West Central Alberta	2,099	1,914	1,847	1,904	1,237
Deep Basin	985	924	1,150	1,362	1,425
Southern Alberta	713	743	847	1,009	1,109
Other	10	6	6	10	10
Total	3,807	3,587	3,850	4,285	3,781

The first quarter production of 3,807 boe per day was an increase of 6% compared to fourth quarter of 2008 production of 3,587 boe per day. In the fourth quarter, ProspEx experienced approximately 200 boe per day of lost production due to facility downtime, which was resolved in the first quarter. New well tie-ins essentially offset natural production declines between the fourth quarter of 2008 and the first quarter of 2009.

At Salter, ProspEx has recently received regulatory approval for the relicensing of an existing pipeline to accommodate production from the horizontal well drilled in the first quarter of 2008. Production is expected to come on stream at a facilities restricted rate of two mmcf per day in May, 2009. ProspEx has a 40% working interest in the production from this well.

Production in the second quarter of 2009 is forecast to be approximately 3,100 boe per day. This forecast reflects the expected shut down of third party facilities at Ricinus for the month of June for maintenance. ProspEx has approximately 1,000 boe per day of production impacted by the Ricinus outage.

Reader's Advisory

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

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

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

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 and resource estimates and estimates of recoverable quantities of oil, natural gas and liquids; the Company's ability to replace and expand oil and gas reserves; environmental claims and liabilities; incorrect assessments of value when making acquisitions or dispositions; increases in debt service charges; the loss of key personnel; the marketability of production; defaults by third party operators; unforeseen title defects; fluctuations in foreign currency and exchange rates; inadequate insurance coverage; compliance with environmental laws and regulations; changes in tax and royalty laws; the Company's ability to access external sources of debt and equity capital; and the Company's ability to obtain equipment in a timely manner to carry out development activities. Further information regarding these factors may be found under the headings "*Risk Factors*" and "*Industry Conditions*" in the Company's most recent Annual Information Form, under the heading "*Business Risks*" in the Company's Management's Discussion and Analysis for the year ended December 31, 2008, and in the Company's most recent consolidated financial statements, management information circular, quarterly reports, material change reports and news releases available under the Company's profile on SEDAR (www.sedar.com). Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should also carefully consider information set forth in the section "Forward-Looking Information" of the Company's most recent Annual Information Form respecting the assumptions upon which the Company bases certain forward-looking information and the uncertainties inherent in such assumptions.

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

For the purposes of this press release, boes have been calculated on the basis of six thousand cubic feet of gas to one barrel of oil. The term boe may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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

ProspEx Resources Ltd.
Consolidated Highlights
For the period ended

(unaudited)	Three months ended March 31, 2009	Three months ended March 31, 2008
FINANCIAL (\$000's)		
Oil and gas revenue	12,765	17,378
Net earnings (loss)	(2,225)	(2,110)
Cash flow ⁽¹⁾	5,720	9,181
Total assets	195,822	196,187
Total net debt ⁽²⁾	49,267	55,797
Net earnings (loss) per share (\$ per share)		
Basic	(0.04)	(0.04)
Diluted	(0.04)	(0.04)
Cash flow per share (\$ per share) ⁽¹⁾		
Basic	0.10	0.16
Diluted	0.10	0.16
Weighted average common shares (000's)		
Basic	57,385	56,545
Diluted	57,385	58,091
PRODUCTION VOLUMES		
Natural gas (mcf/d)	17,561	19,064
Natural gas liquids (bbls/d)	811	536
Oil (bbls/d)	<u>69</u>	<u>68</u>
Total (boe/d)	3,807	3,781
SALES PRICES		
Natural gas (\$/mcf)	6.20	7.98
Natural gas liquids (\$/bbl)	36.05	60.47
Oil (\$/bbl)	<u>53.32</u>	<u>95.44</u>
Total (\$/boe)	37.25	50.50
NETBACKS (\$/boe)		
Price	37.25	50.50
Unrealized financial instrument loss	(2.42)	(13.13)
Royalties	(7.37)	(8.57)
Operating costs	(7.16)	(10.17)
Transportation	(1.04)	(0.96)
General and administrative	<u>(2.64)</u>	<u>(2.53)</u>
Total	16.62	15.14
CAPITAL (\$000's)		
Drilling and completions	3,586	10,051
Facilities	886	4,712
Land and lease	321	1,559
Seismic	50	264
Capitalized general and administrative	<u>798</u>	<u>797</u>
Total exploration & development	5,641	17,383
Net property acquisitions	(2,078)	11,498
Other capital assets	<u>3</u>	<u>60</u>
Total	3,566	28,941

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

(2) Total net debt is defined as long term debt less working capital (or plus working capital deficiency) excluding unrealized financial instrument gain (loss) and associated future tax assets (liabilities).

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

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the financial and operating results of ProspEx Resources Ltd. ("ProspEx" or the "Company") as well as a prospective view of the Company's activities. The MD&A is for the three months ended March 31, 2009, and was prepared as at May 7, 2009. The MD&A should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2008 including the notes related thereto and the consolidated financial statements for the three months ended March 31, 2009 together with the notes related thereto. The reader should be aware that historical results are not necessarily indicative of future performance.

RESULTS OF OPERATIONS

Production for the first quarter averaged 3,807 boe per day, a 6% increase compared to the fourth quarter of 2008. Cash flow before changes in non-cash working capital items was \$5.7 million in the first quarter, a decrease of 38% compared to the prior year, due to lower commodity prices.

Capital expenditures for exploration and development (before acquisitions and dispositions) were \$5.6 million during the first quarter of 2009. The Company participated in three (1.5 net) wells, all in the Deep Basin, including a successful delineation well on the East Kakwa trend.

Net debt, excluding after tax unrealized financial instrument gains or losses was \$49.3 million at March 31, 2009. Net debt declined by \$2 million over the quarter as total capital spending (including acquisitions and dispositions) was less than cash flow.

Business environment

Natural gas prices remain low, driven by high natural gas storage inventories, strong production levels in the United States, LNG imports, and reduced demand for natural gas as a result of the global economic downturn. The Company believes these factors suggest prices will stay low for the balance of 2009, and potentially longer. In light of this view, as well as the uncertainty in credit and equity markets, ProspEx intends to adopt a more conservative approach in managing the Company's finances, including restricting exploration and development capital spending to be approximately equal to cash flow.

The Canadian natural gas industry has always been a very cyclical business. While the current downturn may be more severe than many in the past, ProspEx is confident that in time, the cycle will turn. ProspEx will work to take advantage of opportunities and position the Company to prosper as the business environment improves, while managing the Company's finances prudently in the interim.

ProspEx's capital spending priorities continue to focus on capturing and proving up new opportunities that are anticipated to generate repeatable prospect inventory with economies of scale. In the current business environment drilling to bring new production on stream in the short term is less attractive than capturing new opportunities, although to the extent possible, the Company will seek to take advantage of the benefits available under the royalty incentives announced by the Province of Alberta on March 3, 2009.

Revenue

(\$000's)	Three months ended March 31, 2009	Three months ended March 31, 2008
Natural gas	\$ 8,485	\$ 13,739
Realized gain on financial instruments	1,316	100
Total natural gas	9,801	13,839
Oil	330	587
Natural gas liquids	2,634	2,952
Oil and gas revenue	12,765	17,378
Unrealized financial instrument loss	(828)	(4,519)
Total revenue	\$ 11,937	\$ 12,859

First quarter oil and gas revenue decreased \$4.6 million or 27% to \$12.8 million in 2009 from \$17.4 million in the first quarter of 2008 as a result of lower average realized prices for some commodities. First quarter 2009 total revenue of \$11.9 million decreased \$0.9 million or 7% from \$12.9 million in the same period of 2008 for the reasons mentioned above, offset by a reduction of \$3.7 million in unrealized financial instrument loss.

Production

	Three months ended March 31, 2009	Three months ended March 31, 2008
<u>Area (boe/d)</u>		
Deep Basin	985	1,425
West Central Alberta	2,099	1,237
Southern Alberta	713	1,109
Other Areas	10	10
	<u>3,807</u>	<u>3,781</u>
<u>Product</u>		
Natural gas (mcf/d)	17,561	19,064
Natural gas liquids (bbls/d)	811	536
Oil (bbls/d)	69	68
Total (boe/d)	<u>3,807</u>	<u>3,781</u>

The first quarter production of 3,807 boe per day was in line with the 3,781 boe per day recorded in the first quarter of 2008. Over this twelve month period, production in the Deep Basin dropped by 440 boe per day (31%) due to natural declines in the Wapiti area, partially offset by favorable drilling results in Kakwa. West Central Alberta showed production growth of 862 boe per day (70%) due to growth in the Ricinus area through successful drilling and asset acquisitions. Production in Southern Alberta declined by 36% or 396 boe per day, due to natural declines at Medallion and the disposition of assets in the Granum area in 2008.

Production in the first quarter of 2009 increased by 220 boe per day or 6% from 3,587 boe per day in the fourth quarter of 2008. In the fourth quarter, ProspEx experienced approximately 200 boe per day of lost production due to facility downtime, which was resolved in the first quarter. New well tie-ins essentially offset natural production declines between the fourth quarter of 2008 and the first quarter of 2009.

Commodity Pricing

ProspEx Average Prices	Three months ended March 31, 2009	Three months ended March 31, 2008
Natural gas (\$/mcf)		
Sales price	\$ 5.37	\$ 7.92
Realized gain on financial instrument	0.83	0.06
	6.20	7.98
Oil (\$/bbl)	53.32	95.44
NGL (\$/bbl)	36.05	60.47
Average realized price (\$/boe)	37.25	50.50
Unrealized loss on financial instrument (\$/boe)	(2.42)	(13.13)
Total average price (\$/boe)	\$ 34.83	\$ 37.37

Benchmark pricing	Three months ended March 31, 2009	Three months ended March 31, 2008
AECO C Spot (\$/mcf)	\$ 4.92	\$ 7.90
Edmonton Par – light oil (\$/bbl)	\$ 49.66	\$ 97.50

Average natural gas sales prices decreased 32% to \$5.37 per mcf in the first quarter of 2009, compared to \$7.92 per mcf in the first quarter of 2008. During the first quarter of 2009, AECO C daily spot prices for natural gas decreased 38% compared to the first quarter of 2008 and the AECO monthly index for the same period decreased 21%. The Company divides its gas sales between the daily and monthly index's and would therefore expect price movements to fall between these two benchmarks. The overall price decline reflects the current over supply of natural gas in North American markets.

Realized natural gas prices for the first quarter of 2009 averaged \$6.20 per mcf, a decrease of 22% from \$7.98 per mcf realized in the first quarter of 2008. Favorable results from the Company's risk management program resulted in a gain of \$0.83 per mcf in the first quarter of 2009.

Oil prices received for the first quarter of 2009 were \$53.32 per barrel ("bbl"). This is a 44% decrease from the \$95.44 per bbl received in the first quarter of 2008, consistent with the decrease in benchmark pricing. The price realized for natural gas liquids ("NGLs") in the first quarter of 2009 was \$36.05 per bbl, a decrease of 40% from \$60.47 per bbl in the first quarter of 2008. Overall, oil and NGL prices have declined substantially, as the world wide economic slowdown has reduced demand for commodities.

Financial Instruments

For the quarter ended March 31, 2009, the Company's risk management program resulted in net realized gain of \$1.3 million, compared to a \$0.1 million net realized gain for the same period in 2008.

The impact of the changes in the fair values of open financial instruments during the quarter ended March 31, 2009 was an unrealized loss of \$0.8 million. This compares to an unrealized loss of \$4.5 million for the first quarter of 2008. As of March 31, 2009, there are no financial instruments open.

Royalty Expenses

(\$000's)	Three months ended March 31, 2009	Three months ended March 31, 2008
Crown	\$ 2,015	\$ 2,665
Freehold and gross overriding	<u>511</u>	<u>285</u>
Total Royalties	<u>\$ 2,526</u>	<u>\$ 2,950</u>
\$ per boe	\$ 7.37	\$ 8.57
As a percentage of oil and gas revenue	<u>20%</u>	<u>17%</u>

In the first quarter of 2009, royalties totaled \$2.5 million or 20% of revenue compared to last year's \$3.0 million or 17% of revenue. Overall royalty payments decreased compared to the same quarter of 2008, reflecting the decrease in the overall commodity prices received. However, on a percentage basis the overall royalty rate has increased due to the adoption of a new royalty framework by the Province of Alberta. In addition, a change in the methodology on royalty deductions by the Alberta Government has also contributed to higher overall royalty rates.

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.

Operating Costs

	Three months ended March 31, 2009	Three months ended March 31, 2008
Operating costs (\$000's)	\$ 2,453	\$ 3,500
Operating costs (\$/boe)	<u>\$ 7.16</u>	<u>\$ 10.17</u>

Operating costs for the first quarter were \$2.5 million or \$7.16 per boe, compared to \$3.5 million or \$10.17 per boe in the first quarter of 2008. The first quarter of 2008 had higher operating costs as a result of additional spending required to integrate newly acquired properties, the cost to address operational issues in the Medallion area, and increased costs at Salter.

Transportation Expenses

	Three months ended March 31, 2009	Three months ended March 31, 2008
Transportation expenses (\$000's)	\$ 358	\$ 332
Transportation expenses (\$/boe)	<u>\$ 1.04</u>	<u>\$ 0.96</u>

Transportation expense per boe for the first quarter did not change significantly from the comparable period of 2008.

General and Administrative Expenses

(\$000's)	Three months ended March 31, 2009	Three months ended March 31, 2008
Gross general and administrative	\$ 1,948	\$ 1,935
Recoveries	<u>(245)</u>	<u>(269)</u>
Capitalized expenses	<u>(798)</u>	<u>(797)</u>
Net general and administrative expenses	\$ 905	\$ 869
Net general and administrative expenses (\$/boe)	<u>\$ 2.64</u>	<u>\$ 2.53</u>

Gross general and administrative costs remained the same compared to the same period in 2008.

Interest and Bank Charges

Interest and bank charges of \$0.3 million in the first quarter were slightly lower compared to the prior year amount of \$0.5 million. Although average debt levels have remained consistent over the past year, interest rate decreases in the quarter resulted in interest expense reductions.

Depletion, Depreciation and Accretion

	Three months ended March 31, 2009	Three months ended March 31, 2008
Depletion, depreciation and accretion (\$000's)	\$ 8,741	\$ 7,375
Depletion, depreciation and accretion (\$/boe)	\$ 25.51	\$ 21.43

Depletion, depreciation and accretion expense per boe in the first quarter of 2009 was \$25.51 per boe. This is a 19% increase from the first quarter 2008 rate of \$21.43 per boe. This rate increase is due to the results of the activity over the past twelve months where the overall cost to add proven reserves was higher than the historical average, coupled with revisions in the proven reserve balance in 2008.

Stock-Based Compensation

Stock-based compensation expenses decreased from \$0.2 million in the first quarter of 2008, to \$0.1 million in the first quarter of 2009. Costs have decreased as the initial grant of stock options and special performance units in 2004 have been fully recognized, and no new options were granted in the first quarter of 2009.

Income Taxes

In the first quarter of 2009, the Company's future income tax recovery of \$1.2 million was greater than the same period in 2008 (a recovery of \$0.8 million). This increase in recovery is a result of an increase in the overall net loss before income taxes compared to the prior period.

Estimated tax pools as at March 31:

(\$000's)	2009	2008
Canadian development expense	\$ 35,402	\$ 35,217
Canadian exploration expense	32,833	31,859
Canadian oil & gas property expense	36,474	39,010
Undepreciated capital cost	43,049	48,013
Other	4,645	4,735
	\$ 152,403	\$ 158,834

Net Earnings and Cash Flow

The Company reported a net loss of \$2.2 million, versus the \$2.1 million net loss in the same period of 2008. During the first quarter of 2009 oil and gas revenue was reduced by \$4.6 million or 27% due to a decrease in average realized prices of 26% compared to the same quarter of 2008. This was offset by a decrease of \$3.7 million in unrealized losses relating to financial instruments and a reduction in operating costs of \$1.0 million compared to those seen in the first quarter of 2008.

The Company's cash flow for the first quarter of 2009 was affected by lower commodity prices, partially offset by lower operating costs. First quarter 2009 cash flow was \$5.7 million, a decrease of 38% or \$3.5 million from the same period of 2008.

Capital Expenditures

Net capital expenditures were \$3.6 million during the first quarter of 2009, compared to net expenditures of \$28.9 million in the first quarter of 2008. Details of these expenditures for the period ended March 31 were as follows:

(\$000's)	2009	2008
Drilling and completions	\$ 3,586	\$ 10,051
Facilities	886	4,712
Land and lease	321	1,559
Seismic	50	264
Capitalized G&A	<u>798</u>	<u>797</u>
Exploration & development capital expenditures	5,641	17,383
Net property acquisitions (dispositions)	(2,078)	11,498
Other capital expenditures	3	60
Total net capital expenditures	\$ 3,566	\$ 28,941

For the first quarter of 2009, the Company participated in drilling three (1.5 net) wells, all within the Deep Basin. Of the \$5.6 million invested in exploration and development capital expenditures, \$3.5 million was spent in the Deep Basin, \$0.5 million in West Central Alberta, \$0.5 million in Southern Alberta, and \$0.9 million on corporate items.

The Company also disposed of certain non-core properties in the Wapiti area of Alberta, for proceeds of \$2.1 million in the quarter. These properties consist of four (2.0 net) producing wells, with net production of approximately 30 boe per day and 3,160 net acres of undeveloped land.

Liquidity & Capital Resources

At March 31, 2009, ProspEx had the following financial resources available to fund its capital expenditure program.

(\$000's)	
Working capital deficiency, excluding financial instrument gains/losses and related tax	\$ (11,796)
Long-term debt	(37,471)
Bank facilities available	65,000
Total capital resources available	\$ 15,733

ProspEx expects that it will be able to fund its 2009 capital program from operating cash flow and capital resources noted above.

As at March 31, 2009 the Company's ratio of net debt to annualized operating cash flow was 2.2 to 1.0, which exceeds the Company's guidelines on capital management strategy as a result of the effects of lower commodity prices on cash flow.

The Company expects the ratio to decrease by the end of the year through a combination of improved commodity prices resulting in higher cash flows, reduced capital expenditures and lower debt levels.

Bank Debt

At March 31, 2009 the Company had a \$65.0 million credit facility with a Canadian chartered bank. The facility is available by way of Canadian prime and US base rate loans, LIBOR advances, bankers' acceptances and letters of credit. Canadian prime rate loans, US base rate loans, and LIBOR advances bear interest at Canadian prime, US base rate or LIBOR, as applicable, plus a margin dependent upon the Company's debt/cash flow ratio as calculated in the previous quarter. Currently, the Company only utilizes Bankers' Acceptances within this facility. Stamping fees

for bankers' acceptances are based on a rate adjusted over the term to maturity plus a margin as described above. The bankers' acceptance and stamping fees varied from 2.37% to 2.96% in the first quarter of 2009 compared to 4.38% to 5.88% for the same period in 2008. The credit facility is fully revolving until June 30, 2009 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 repayment is required on July 1, 2010. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

During the quarter, the semi-annual review of the credit facility was completed, which resulted in no changes to the \$65 million credit facility limit.

Share Capital

As at March 31, 2009, ProspEx had 57,385,162 common shares (2008 – 56,849,312), 2,016,269 warrants (2008 – 2,320,255), and 5,102,887 options (2008 – 5,267,417) issued and outstanding. Each warrant and option, upon exercise, entitles the holder to one common share.

As at May 7, 2009, ProspEx had 57,385,162 common shares, 2,016,269 warrants, and 5,102,887 options issued and outstanding.

Contractual Obligations

The Company has committed to certain payments as follows:

Payments due (\$000's)	2009	2010	2011	2012	2013	Thereafter
Long-term debt	\$ -	37,471	-	-	-	\$ -
Building lease	972	1,298	1,315	1,321	1,321	330
Process fees	284	379	63	-	-	-
Transportation	398	121	-	-	-	-
Other	12	7	-	-	-	-
Total	\$ 1,666	39,276	1,378	1,321	1,321	\$ 330

Off-Balance Sheet Arrangements

The Company has not entered into any off-Balance Sheet transactions other than previously discussed.

Summary of Quarterly Results

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

	2009		2008				2007	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (\$000's, except per share amounts)								
Oil and gas revenue	12,765	15,046	19,714	24,567	17,378	15,906	16,004	17,553
Net earnings (loss)	(2,225)	487	6,923	2,261	(2,110)	(180)	(1,352)	2,235
Per share - basic	(0.04)	0.01	0.12	0.04	(0.04)	0.00	(0.03)	0.04
- diluted	(0.04)	0.01	0.12	0.04	(0.04)	0.00	(0.03)	0.04
Average Daily Production								
Oil (bbls/d)	69	57	65	108	68	125	82	210
NGL (bbls/d)	811	719	722	851	536	515	548	513
Natural Gas (mcf/d)	<u>17,561</u>	<u>16,868</u>	<u>18,379</u>	<u>19,957</u>	<u>19,064</u>	<u>19,690</u>	<u>21,743</u>	<u>21,108</u>
Total (boe/d)	<u>3,807</u>	<u>3,587</u>	<u>3,850</u>	<u>4,285</u>	<u>3,781</u>	<u>3,922</u>	<u>4,254</u>	<u>4,241</u>
Operating Netbacks (\$/boe)								
Price ⁽¹⁾	37.25	45.59	55.65	63.00	50.50	44.09	40.89	45.48
Royalties	(7.37)	(8.18)	(12.98)	(11.97)	(8.57)	(5.41)	(7.79)	(3.97)
Transportation	(1.04)	(1.00)	(0.91)	(1.00)	(0.96)	(0.86)	(0.89)	(1.01)
Operating Cost	<u>(7.16)</u>	<u>(4.58)</u>	<u>(7.76)</u>	<u>(8.39)</u>	<u>(10.17)</u>	<u>(8.06)</u>	<u>(8.42)</u>	<u>(7.86)</u>
Operating Netback	<u>21.68</u>	<u>31.83</u>	<u>34.00</u>	<u>41.64</u>	<u>30.80</u>	<u>29.76</u>	<u>23.79</u>	<u>32.64</u>

⁽¹⁾ Price excludes unrealized financial instrument gain or loss.

Quarter to quarter results are influenced by many factors. The three main drivers are capital spending, production and commodity prices.

Capital spending is typically more heavily weighted to the winter drilling months, and therefore the fourth and first quarters of the year usually represent approximately 60 percent of the exploration and development budgets. The second quarter of each year usually has minimal capital spending, reflecting surface access restrictions due to spring break up conditions. Production additions typically lag capital spending by one or two quarters, resulting in production peaks in the second quarter of each year.

As previously mentioned, production is a key driver of overall quarterly results. Production is not only influenced by additions as a result of capital programs, but also by natural declines as production from existing wells diminishes over time. With respect to the Company's overall quarterly production profile, production tends to peak in the second quarter of each year, reflecting new additions from the winter drilling programs, and the subsequent quarters reflect declining production as natural decline rates come into play.

World-wide commodity price environments have a significant influence on the overall Company's quarterly results. The Company is an overall price-taker in the oil & gas industry and as a result, world prices drive overall Company revenues. Natural gas prices are currently low, driven by high natural gas storage inventories, strong domestic production levels in the United States, and reduced demand for natural gas as a result of the global economic downturn. In the face of this uncertainty, the Company has adopted a conservative approach by restricting exploration and development capital spending and as a consequence total net oil and gas revenues may not follow traditional quarterly cyclical trends in 2009.

NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted and Recent Pronouncements

Convergence with International Reporting Standards – On February 13, 2008, the Canadian Accounting Standards Board confirmed that the effective date for the convergence of Canadian Generally Accepted Accounting Standards for publicly accountable entities to International Financial Reporting Standards ("IFRS") will be January 1, 2011. Although IFRS is principle based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. The Company is currently engaged in preparing for this transition and continues to monitor the developments and assess the impact of these prospective changes to the financial statements.

DISCLOSURE CONTROLS AND POLICIES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of March 31, 2009, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiary, is made known to them by others within those entities. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

For the first quarter of 2009 there were no changes to the design of internal controls over financial reporting.

ADVISORIES

Within the MD&A references are made to terms commonly used in the oil and gas industry. "Cash flow" is not defined by GAAP in Canada and is referred to as a non-GAAP measure. For the purposes thereof, "cash flow" is defined as cash flow from operations before the change in operating 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.

The following table provides a reconciliation between cash flow from operations and cash flow:

(\$000s)	2009	2008
Cash flow from operating activities	8,978	11,107
Change in non-cash working capital	(3,258)	(1,926)
Cash flow	5,720	9,181

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

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

Forward-looking Information

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

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

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

ProspEx Resources Ltd.
Consolidated Balance Sheets
(unaudited)

(Stated in thousands of dollars)

March 31, 2009 **December 31, 2008**

Assets

Current assets

Accounts receivable	\$	8,053	10,770
Prepaid expenses		944	693
Unrealized financial instrument gain		-	828
		<u>8,997</u>	<u>12,291</u>

Property, plant and equipment, net

		<u>186,825</u>	<u>190,693</u>
	\$	<u><u>195,822</u></u>	<u><u>202,984</u></u>

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$	20,793	22,078
Future income tax liability (note 2)		-	240
		<u>20,793</u>	<u>22,318</u>

Long-term debt (note 1)

37,471 40,807

Asset retirement obligation

7,142 6,462

Future income tax liability (note 2)

8,156 9,119

Total liabilities

73,562 78,706

Shareholders' Equity

Common shares (note 3)		90,802	90,802
Common share performance warrants (note 3)		1,233	1,233
Contributed surplus (note 3)		6,965	6,758
Retained earnings		23,260	25,485
Total shareholders' equity		<u>122,260</u>	<u>124,278</u>
	\$	<u><u>195,822</u></u>	<u><u>202,984</u></u>

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Loss, Comprehensive Loss and Retained Earnings
For the three months ended March 31,
(unaudited)

(Stated in thousands of dollars, except per share amounts)	2009	2008
Revenue		
Oil and gas	\$ 12,765	17,378
Unrealized financial instrument loss	(828)	(4,519)
Royalties	(2,526)	(2,950)
	<u>9,411</u>	<u>9,909</u>
Expenses		
Depletion, depreciation and accretion	8,741	7,375
Operating	2,453	3,500
Transportation	358	332
General and administrative	905	869
Interest and bank charges	316	510
Stock-based compensation	103	195
	<u>12,876</u>	<u>12,781</u>
Loss before income taxes	(3,465)	(2,872)
Income taxes (note 2)		
Future reduction	(1,240)	(762)
Net loss and comprehensive loss for the period	(2,225)	(2,110)
Retained earnings, beginning of period	25,485	17,925
Retained earnings, end of period	\$ <u>23,260</u>	<u>15,815</u>
Net loss per share		
Basic	\$ (0.04)	(0.04)
Diluted	\$ (0.04)	(0.04)

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Cash Flows
For the three months ended March 31,
(unaudited)

(Stated in thousands of dollars)

	2009	2008
Operations		
Net loss for the period	\$ (2,225)	(2,110)
Items not involving cash		
Depletion, depreciation and accretion	8,741	7,375
Stock-based compensation	103	195
Future income taxes (reduction)	(1,240)	(762)
Unrealized financial instrument loss	828	4,519
Asset retirement expenditures	(487)	(36)
	<u>5,720</u>	<u>9,181</u>
Changes in non-cash working capital	<u>3,258</u>	<u>1,926</u>
	<u>8,978</u>	<u>11,107</u>
Financing		
Increase (decrease) in long-term debt	(3,336)	10,579
Issuance of common shares	-	506
	<u>(3,336)</u>	<u>11,085</u>
Investments		
Exploration and development expenditures	(5,641)	(17,383)
Proceeds on property disposal	2,078	-
Property acquisition	-	(11,498)
Deposit on property acquisition	-	1,175
Other capital expenditures	(3)	(60)
	<u>(3,566)</u>	<u>(27,766)</u>
Changes in non-cash working capital	<u>(2,076)</u>	<u>5,574</u>
	<u>(5,642)</u>	<u>(22,192)</u>
Change in cash	-	-
Cash, beginning of period	-	-
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, 2009
(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, 2008 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. In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature to present fairly the Company's financial position as at March 31, 2009 and the results of its operations and cash flows for the three months ended March 31, 2009. 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, 2008.

1. LONG TERM DEBT

At March 31, 2009 the Company had a \$65.0 million credit facility with a Canadian chartered bank. The facility is available by way of Canadian prime and US base rate loans, LIBOR advances, bankers' acceptances and letters of credit. Canadian prime rate loans, US base rate loans, and LIBOR advances bear interest at Canadian prime, US base rate or LIBOR, as applicable, plus a margin dependent upon the Company's debt/cash flow ratio as calculated in the previous quarter. Currently, the Company only utilizes Bankers' Acceptances within this facility. Stamping fees for bankers' acceptances are based on a rate adjusted over the term to maturity plus a margin as described above. The bankers' acceptance and stamping fees varied from 2.37% to 2.96% in the first quarter of 2009 compared to 4.38% to 5.88% for the same period in 2008. The credit facility is fully revolving until June 30, 2009 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 repayment is required on July 1, 2010. This facility is secured by a \$200 million demand debenture and a first floating charge on all petroleum and natural gas assets of ProspEx.

During the quarter, the semi-annual review of the credit facility was completed, which resulted in no changes to the \$65 million credit facility limit.

2. 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, 2009	Three months ended March 31, 2008
Loss before taxes	\$ (3,465)	\$ (2,872)
Rate (%)	29.0 %	29.5%
Computed expected reduction for future income taxes	(1,005)	(847)
Increase (decrease) in taxes resulting from:		
Stock-based compensation expensed	30	58
Effect of change in tax rate	(279)	27
Other	14	-
Income tax reduction	\$ (1,240)	\$ (762)

The current future income tax liability at March 31, 2009 of \$nil (December 31, 2008 - \$0.2 million) results from the future tax impact of the unrealized financial instrument gain.

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

(\$000's)	March 31, 2009	December 31, 2008
Property, plant and equipment	\$ (9,801)	\$ (10,697)
Asset retirement obligation	1,887	1,773
Share issue costs	258	305
	(7,656)	(8,619)
Valuation allowance	(500)	(500)
Future income tax liability	\$ (8,156)	\$ (9,119)

At March 31, 2009, the Company had estimated tax pools available to reduce future taxable income of \$152.4 million (December 31, 2008 - \$154.6 million).

Capitalized stock based compensation resulted in an increase to future tax liabilities of \$0.1 million during the quarter (2008 - \$0.1 million).

3. SHAREHOLDERS' EQUITY

(a) Common Shares & Common Share Performance Warrants Issued

	Three months ended March 31, 2009		Three months ended March 31, 2008	
	Number of Shares/Warrants (000's)	Amount (\$000's)	Number of Shares/Warrants (000's)	Amount (\$000's)
Common shares				
Balance at the beginning of the period	57,385	\$ 90,802	56,453	\$ 90,543
Flow-through shares tax adjustment	-	-	-	(2,219)
Shares issued on exercise of warrants	-	-	396	796
Issue costs, net of future tax reduction	-	-	-	(34)
Balance at the end of the period	57,385	\$ 90,802	56,849	\$ 89,086
Common share performance warrants				
Balance at the beginning of the period	2,016	\$ 1,233	2,716	\$ 1,661
Exercised	-	-	(396)	(242)
Balance at the end of the period	2,016	\$ 1,233	2,320	\$ 1,419

All outstanding performance warrants entitle the holder to acquire a common share at a price of \$1.40 and expire on October 1, 2009.

(b) Contributed Surplus

(000's)	Three months ended March 31, 2009	Three months ended March 31, 2008
Balance at the beginning of the period	\$ 6,758	\$ 5,614
Stock-based compensation	207	390
Exercise of stock options	-	-
Balance at the end of the period	\$ 6,965	\$ 6,004

(c) Stock Options

Changes in outstanding stock options are summarized below:

	Three months ended March 31, 2009		Three months ended March 31, 2008	
	Options (000's)	Weighted Average Exercise Price	Options (000's)	Weighted Average Exercise Price
Outstanding at beginning of period	5,160	\$ 3.44	4,656	\$ 3.62
Granted	-	-	611	3.32
Forfeited	(57)	3.36	-	-
Outstanding at end of period	5,103	3.45	5,267	\$ 3.59

The following table summarizes stock options outstanding and exercisable at March 31, 2009:

Range of exercise price	Options outstanding			Options exercisable	
	Number of outstanding at period end (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at period end (000's)	Weighted average exercise price
\$ 1.25 - \$ 2.32	286	4.6	\$ 1.25	n/a	n/a
\$ 2.33 - \$ 3.39	2,291	1.3	\$ 3.21	1,931	\$ 3.22
\$ 3.40 - \$ 4.46	2,526	2.7	\$ 3.91	1,671	\$ 3.90
	5,103	2.2	\$ 3.45	3,602	\$ 3.54

No options were granted during the first quarter of 2009. The fair value of options granted during the first quarter of 2008 was \$0.8 million. The fair value is determined using the Black-Scholes option pricing model, with weighted average assumptions for grants as follows:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Risk free interest rate	n/a	3.2%
Expected life	n/a	5 years
Expected volatility	n/a	47%
Expected dividend yield	n/a	Nil
Forfeiture rate	n/a	5%

The estimated fair values of the options are being amortized against earnings and capitalized to property, plant and equipment over the vesting period. During the three months ended March 31, 2009, a total of \$0.1 million (2008 - \$0.2 million) of stock-based compensation was recorded against income and \$0.1 million (2008 - \$0.2 million) was capitalized.

(d) Per Share Amounts

	Three months ended March 31, 2009	Three months ended March 31, 2008
Weighted average common shares basic	57,385,162	56,545,317
Dilutive securities:		
Stock options	-	153,914
Performance warrants	-	1,392,110
Diluted	57,385,162	58,091,341

For the three months ended March 31, 2009, all options outstanding (2008 - 3,284,500) were excluded from the diluted calculations as they were anti-dilutive.

4. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

Credit Risk

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

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to two petroleum and natural gas marketers therefore is subject to concentration risk. To date the Company has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining joint venturer approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venturers; however in certain circumstances, it may elect to cash call a joint venturer in advance of the work.

As at March 31, 2009 the Company's receivables consisted of \$2.9 million (December 31, 2008 - \$4.3 million) from joint venturers, \$3.2 million (December 31, 2008 - \$4.2 million) of receivables from petroleum and natural gas marketers and \$2.0 million (December 31, 2008 - \$2.3 million) of other receivables.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at March 31, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the quarter ended March 31, 2009.

Liquidity risk

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

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility, as outlined in note 1. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th day of each month.

The following are the contractual maturities of financial liabilities and associated interest payments due as at March 31, 2009:

Financial Liability (\$000's)	< 1 year	1 - 2 years	2 - 5 years	Thereafter
Accounts payable and accrued liabilities	\$ 20,793	-	-	-
Long-term debt	-	37,471	-	-
Total	\$ 20,793	37,471	-	-

Market risk

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

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

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollars. Given that changes in exchange rate have an indirect influence, the impact of changing exchange rates can not be accurately quantified. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2009.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company attempts to mitigate commodity price risk through the use of financial derivative sales contracts. There were no contracts in place as of March 31, 2009.

The contracts in place during the three months ended March 31, 2009 resulted in an unrealized loss of \$0.8 million (March 31, 2008 - \$4.5 million loss) and a realized gain of \$1.3 million (March 31, 2008 - \$0.1 million gain).

With respect to commodity prices, during the three months ended March 31, 2009, a one dollar increase in the price per GJ of natural gas relevant only to the Company's production dedicated to derivative financial instruments would have resulted in a net earnings decrease of \$0.1 million (2008 – increase of \$0.2 million). A one dollar decrease in the price per GJ of natural gas on the same production would have increased net earnings after taxes for the three months ended March 31, 2009 by \$0.1 million (2008 - \$nil). This excludes any impact relating to unrealized financial instrument gains/losses.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its credit facility which bears a floating rate of interest. The Company had no interest rate swaps or financial contracts in place as at or during the three months ended March 31, 2009. For the three months ended March 31, 2009, a difference in the interest rate of 1% would change net earnings after tax by an estimated \$0.1 million (2008 - \$0.1 million), assuming all other variables are constant.

Capital Management Strategy

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

(\$000's)	March 31, 2009	December 31, 2008
Shareholders' equity	\$ 122,260	\$ 124,278
Long-term debt	37,471	40,807
Working capital deficiency excluding unrealized financial instrument gain or losses and associated future tax assets or liabilities	11,796	10,615

The Company manages its capital programs in order to maintain a prudent capital structure as changes in economic conditions occur. The Company may and has from time to time issued shares and adjusted spending to manage current or projected operating cash flows and debt levels.

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

As at March 31, 2009 the Company's ratio of net debt to annualized operating cash flow was 2.2 to 1.0, and compares to the ratio of 1.2 to 1.0 for the year ended December 31, 2008.

The Company's share capital is not subject to any external restrictions. The bank debt facility has no restrictions other than the limitation of borrowing under the facility on an annual basis. As at March 31, 2009, the Company is in compliance with all flow-through share expenditure requirements as well as all bank facility requirements.

There have been no changes to the Company's capital management strategy during the quarter ended March 31, 2009.

5. ADDITIONAL DISCLOSURES

(a) Interest and Taxes Paid

Net cash interest paid during the quarter was \$0.5 million (2008 - \$0.4 million). Cash taxes paid during the period was \$nil (2008 - \$nil).

(b) Asset Retirement Obligation

For the quarter ended March 31, 2009, asset retirement obligation increased by \$1.1 million (March 31, 2008 - \$0.1 million), with a corresponding increase to Property, Plant and Equipment.

6. COMMITMENTS

The Company has committed to certain future payments as follows:

Payments due (\$000's)	2009	2010	2011	2012	2013	Thereafter
Long-term debt	\$ -	37,471	-	-	-	\$ -
Building lease	972	1,298	1,315	1,321	1,321	330
Process fees	284	379	63	-	-	-
Transportation	398	121	-	-	-	-
Other	12	7	-	-	-	-
Total	\$ 1,666	39,276	1,378	1,321	1,321	\$ 330

Contact Information

For further information: John Rossall, President & CEO, jrossall@psx.ca, (403) 268-3940 or George Yee, Vice President Finance & Chief Financial Officer, gyee@psx.ca, (403) 268-3940.