



2008 Third Quarter Results

November 6, 2008

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

ProspEx Resources Ltd. ("ProspEx" or "the Company") announces its financial and operating results for the three and nine month periods ended September 30, 2008 and provides comments on capital markets.

"The ongoing global financial crisis has depressed the share price of all Canadian oil and gas companies," said John Rossall, President and Chief Executive Officer. "However, ProspEx continues to enjoy drilling success and is in a strong financial condition to execute its winter drilling program."

HIGHLIGHTS

- The Company participated in 10 (5.2 net) wells in its three core areas in the third quarter, with a 100% success rate.
- The Company's fourth quarter drilling program is currently underway at Kakwa in the Deep Basin. The first well, an offset to ProspEx's first quarter discovery, has been drilled and encountered reservoir similar to the initial discovery wells. Three additional Kakwa wells are planned prior to year end.
- In Ricinus, ProspEx closed its second asset acquisition of 2008, increasing the Company's average working interest in the area to approximately 90%. Two successful wells were drilled on the newly acquired lands and tested at a combined rate of 600 net barrels of oil equivalent ("boe") per day.
- Production for the third quarter averaged 3,850 boe per day. Production for the third quarter decreased by 10% from the second quarter as no material new production was brought onstream. The tie in of wells at Salter and Edson has been delayed and production from the Harmattan property has shown steeper declines than anticipated. As a result, the Company is adjusting its annual average production guidance from 4,200 to 4,500 boe per day to 4,000 boe per day.
- Cash flow before changes in operating non-cash working capital items for the quarter was \$10.6 million, an increase of 34% compared to the prior year due to higher commodity prices.
- The Company showed earnings of \$6.9 million in the third quarter, driven by a \$8.3 million unrealized mark to market gain on financial instruments, as natural gas prices at quarter end had decreased significantly compared to the pricing at the end of the second quarter.
- Net debt excluding after tax unrealized financial instrument gains or losses was \$48.2 million at September 30, 2008. The Company's credit facility limit remains at \$65 million.

BUSINESS ENVIRONMENT

Recent months have shown a substantial deterioration in equity and credit markets, as well as a significant decline in commodity prices. ProspEx's philosophy is to maintain a strong balance sheet and preserve financial flexibility in these uncertain times, while balancing the need to develop its assets and capture new opportunities.

Given the current conditions in equity and credit markets, ProspEx anticipates that access to capital will be restricted or unavailable to oil and gas companies in the near term. The Company is therefore planning a capital budget approximately equivalent to cash flow until market conditions improve. Although the Company has not finalized a 2009 business plan, ProspEx expects that a capital budget in 2009 equivalent to the Company's forecasted cash flow

at current forward prices should offset current production declines and allow the Company to maintain current production levels through 2009. This capital program is expected to be oriented towards developing higher growth properties at Kakwa in the Deep Basin, and Ricinus in West Central Alberta, as well as securing new opportunities.

ProspEx expects that capital and commodity markets will demonstrate considerable volatility for the foreseeable future, and will continue to monitor the markets carefully. Although there is uncertainty in the capital markets, we remain confident that we have the right people, assets and the financial flexibility to successfully execute on our upcoming winter drilling program.

OPERATIONAL REVIEW

Capital Program

Capital expenditures for exploration and development (before acquisitions and dispositions) were \$12.7 million during the third quarter of 2008. ProspEx participated in 10 (5.2 net) wells in the third quarter with a 100% success rate. In addition to exploration and development spending, ProspEx closed an acquisition of partner interests in the Ricinus area for consideration of \$3.4 million, effective July 1, 2008. These properties included approximately 60 boe per day of net production and 400 net acres of undeveloped land. This acquisition is a follow up to the previous acquisition that closed in January, 2008, further consolidating the Company's Ricinus lands. ProspEx's average Ricinus working interest is now approximately 90%, compared to 20% prior to these two acquisitions.

During the third quarter, the Company enjoyed success in drilling on the newly acquired Ricinus lands, with two 100% working interest wells successfully drilled. Prior to the acquisition of partner interests, ProspEx's average working interest in these two wells was only 5%. The first of these wells is now on stream and producing at a rate of 400 net boe per day, the second well tested at a rate of 200 net boe per day and is currently being tied in to the Company's gathering system in the area. The Company believes that these drilling results have validated upside not included in the acquisition metrics. ProspEx has also acquired an additional 8 sections (5,120 acres) of mineral rights in the Ricinus area at recent Crown land sales, further enhancing the Company's drilling inventory in the area.

Elsewhere in West Central Alberta, two (1.5 net) wells were drilled in Harmattan and one (0.5 net) well was drilled in Willesden Green. The Willesden Green well has been tied in and is producing at a rate of 130 (65 net) boe per day. Tie-ins of the Harmattan wells are expected to be complete by year end.

In the Deep Basin, one (0.6 net) well was drilled in the third quarter and is anticipated to be on production in mid-November. The Company's fourth quarter drilling program is currently underway at Kakwa in the Deep Basin. The first well (0.6 net) of the fourth quarter program, a trend extension well approximately 2.5 kilometres from ProspEx's first quarter discovery, has been drilled and encountered reservoir similar to the initial discovery wells. Three additional Kakwa wells are planned prior to year end: one well on the trend delineated by this first well, and two wells on new trends in the area.

At Edson, construction of a multi-well facility and pipeline tie-in at the 8-13-54-19W5 well (ProspEx 35% working interest) should commence shortly.

At Medallion in Southern Alberta, four (0.6 net) successful partner operated wells were drilled in the third quarter.

In July, the Company disposed of its lands in the Shaw area (2,500 net undeveloped acres), which were due to expire in August of this year, for consideration of \$1.0 million.

Production

Production (boe/d)	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Southern Alberta	847	1,009	1,109	1,134	1,190
West Central Alberta	1,847	1,904	1,237	1,305	1,466
Deep Basin	1,150	1,362	1,425	1,472	1,589
Other	6	10	10	11	9
Total	3,850	4,285	3,781	3,922	4,254

The third quarter production of 3,850 boe per day was a decrease of 10% compared to the second quarter of this year. As no material new production was brought onstream during the quarter, this decrease reflects natural decline of the Company's production base. The tie-in of the Salter and Edson wells has been delayed and production declines at the Harmattan Cardium pool have been greater than anticipated in the Company's forecast. As a result of these factors ProspEx's annual average production guidance for 2008 has been revised downwards to 4,000 boe per day from our previously announced guidance of 4,200 to 4,500 boe per day.

The Company is currently producing at approximately 3,800 boe per day and estimates that it has approximately 600 net boe per day of completed production awaiting tie-in. "Exit" production at year end is expected to be approximately 4,000 to 4,200 boe per day, depending on the exact timing of production additions.

2008 Guidance Summary and Outlook

	Revised	Previous
Annual production	4,000 boe per day	4,200 to 4,500 boe per day
Capital expenditures	\$65 million	\$65 million
Operating costs	\$8.50 per boe	\$8.50 per boe
General and administration ("G&A") costs	\$2.15 per boe	\$2.15 per boe
Royalties	20%	20%

Guidance for 2008 is summarized in the table above. Guidance regarding production, capital expenditures, operating costs, G&A costs and royalties may constitute "financial outlooks" as contemplated by National Instrument 51-102 of the Canadian Securities Administrators entitled *Disclosure Obligations*. The purpose of such financial outlooks is to forecast the anticipated operating results of the Company in 2008 and 2009. Please be advised that the information may not be appropriate for other purposes.

The Company is revising its guidance with respect to annual average production as discussed above.

The Company's total 2008 capital budget, including acquisition expenditures and disposition proceeds, is unchanged at \$65.0 million. Guidance with respect to operating costs, royalties and G&A expenses is also unchanged.

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, 2007, and in the Company's most recent consolidated financial statements, management information circular, quarterly reports, material change reports and news releases available under the Company's profile on SEDAR (www.sedar.com). Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should also carefully consider information set forth in the section "Forward-Looking Information" of the Company's most recent Annual Information Form respecting the assumptions upon which the Company bases certain forward-looking information and the uncertainties inherent in such assumptions.

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

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 September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
FINANCIAL (\$000's)				
Oil and gas revenue	19,714	16,004	61,659	47,628
Net earnings (loss)	6,923	(1,352)	7,074	(911)
Cash flow ⁽¹⁾	10,626	7,912	34,734	26,634
Total assets	198,395	169,923	198,395	169,923
Total net debt ⁽²⁾	48,191	44,497	48,191	44,497
Net earnings (loss) per share (\$ per share)				
Basic	0.12	(0.03)	0.12	(0.02)
Diluted	0.12	(0.03)	0.12	(0.02)
Cash flow per share (\$ per share) ⁽¹⁾				
Basic	0.19	0.14	0.61	0.49
Diluted	0.18	0.14	0.60	0.47
Weighted average common shares (000's)				
Basic	57,200	53,966	56,943	53,895
Diluted	58,215	56,247	58,339	56,369
PRODUCTION VOLUMES				
Natural gas (mcf/d)	18,379	21,743	19,131	19,888
Natural gas liquids (bbls/d)	722	548	703	451
Oil (bbls/d)	65	82	80	125
Total (boe/d)	3,850	4,254	3,972	3,891
SALES PRICES				
Natural gas (\$/mcf)	8.14	6.33	8.55	7.20
Natural gas liquids (\$/bbl)	78.24	51.22	74.08	49.60
Oil (\$/bbl)	<u>125.88</u>	<u>99.52</u>	<u>117.58</u>	<u>71.60</u>
Total (\$/boe)	55.65	40.89	56.65	44.83
NETBACKS (\$/boe)				
Price	55.65	40.89	56.65	44.83
Unrealized financial instrument gain (loss)	23.36	(0.45)	0.90	(1.77)
Royalties	(12.98)	(7.79)	(11.22)	(6.96)
Operating costs	(7.76)	(8.42)	(8.75)	(7.94)
Transportation	(0.91)	(0.89)	(0.96)	(0.97)
General and administrative	<u>(2.55)</u>	<u>(2.00)</u>	<u>(2.35)</u>	<u>(2.11)</u>
Total	54.81	21.34	34.27	25.08
CAPITAL (\$000's)				
Drilling and completions	8,761	9,585	20,905	20,454
Facilities	564	1,383	7,184	11,115
Land and lease	2,600	300	5,513	3,857
Seismic	19	1,081	2,846	2,096
Capitalized general and administrative	749	704	<u>2,243</u>	<u>1,938</u>
Total exploration & development	12,693	13,053	38,691	39,460
Net property acquisitions	3,156	-	9,206	-
Other capital assets	1	49	159	157
Total	15,850	13,102	48,056	39,617

(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 and nine months ended September 30, 2008, and was prepared as at November 6, 2008. The MD&A should be read in conjunction with the audited consolidated financial statements and MD&A for the year ended December 31, 2007 including the notes related thereto and the consolidated financial statements for the three and nine months ended September 30, 2008 together with the notes related thereto. The reader should be aware that historical results are not necessarily indicative of future performance.

RESULTS OF OPERATIONS

The third quarter of 2008 was highlighted by positive drilling results in a deteriorating commodity price environment. Realized natural gas prices of \$8.14 per million cubic feet ("mcf") were down 14% from the second quarter of 2008, although prices increased 29% from \$6.33 per mcf in the same quarter last year. The Company participated in drilling 10 (5.2 net) wells in the third quarter with a 100% success rate. The drilling activity was mainly in the West Central area with positive results in Ricinus, Harmattan and Willesden Green. The new production associated with this drilling program is expected to be on stream over the fourth quarter. The Company saw a 10% decrease in production from the second quarter of 2008 to 3,850 barrels of oil equivalent ("boe") per day. With no new wells coming on stream in the third quarter, the decrease in production from the second quarter is a result of natural declines on the Company's current production base.

Net Earnings and Cash Flow

Cash flow for the third quarter of 2008 was \$10.6 million, an increase of 34% from the same period of 2007. This was driven by a 36% increase in average realized prices and a 17% reduction in operating costs.

During the third quarter of 2008, the Company reported net earnings of \$6.9 million, an \$8.3 million increase over the net loss of \$1.4 million in the same period of 2007. The increase in earnings was due to stronger commodity prices, reduced operating costs and an unrealized gain on financial instruments during the third quarter of 2008.

For the nine months ending September 30, 2008, net earnings increased \$8.0 million to \$7.1 million compared to a net loss of \$0.9 million in the same period of 2007.

Revenue

(\$000's)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Natural gas	\$ 15,214	\$ 11,171	\$ 47,557	\$ 36,805
Realized (loss) gain on financial instruments	(1,451)	1,496	(2,758)	2,264
Total natural gas	13,763	12,667	44,799	39,069
Oil	750	753	2,583	2,444
Natural gas liquids	5,201	2,584	14,277	6,115
Oil and gas revenue	19,714	16,004	61,659	47,628
Unrealized financial instrument gain (loss)	8,277	(175)	977	(1,876)
Total revenue	\$ 27,991	\$ 15,829	\$ 62,636	\$ 45,752

Third quarter oil and gas revenue increased \$3.7 million or 23% to \$19.7 million in 2008 from \$16.0 million in the third quarter of 2007 as a result of a 36% increase in average realized prices offset by a 9% decrease in production. The Company experienced significant increases in natural gas liquids ("NGL") revenues as a result of new liquid rich production in both the Ricinus and Harmattan areas. Third quarter 2008 total revenue of \$28.0 million was an increase of \$12.2 million or 77% from \$15.8 million in the same period of 2007 for the reasons mentioned above, as

well as an increase in the unrealized financial instrument gain of \$8.5 million, as natural gas prices have decreased from the second quarter.

For the nine months ending September 30, 2008 total revenue was \$62.6 million representing an increase of \$16.9 million or 37% increase over the same period of 2007. This was due to a 26% increase in average prices as well as a slight increase in production.

Production

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
<u>Area (boe/d)</u>				
Deep Basin	1,150	1,589	1,312	1,378
West Central Alberta	1,847	1,466	1,663	1,344
Southern Alberta	847	1,190	988	1,158
Other Areas	<u>6</u>	<u>9</u>	<u>9</u>	<u>11</u>
	3,850	4,254	3,972	3,891
<u>Product</u>				
Natural gas (mcf/d)	18,379	21,743	19,131	19,888
Natural gas liquids (bbls/d)	722	548	703	451
Oil (bbls/d)	<u>65</u>	<u>82</u>	<u>80</u>	<u>125</u>
Total (boe/d)	3,850	4,254	3,972	3,891

The third quarter production of 3,850 boe per day was a decrease of 10% compared to the second quarter of this year. As no material new production was brought on stream during the quarter, this decrease reflects natural decline of the Company's production base. The tie-in of the Salter and Edson wells has been delayed and production declines at the Harmattan Cardium pool have been greater than anticipated in the Company's forecast. As a result of these factors ProspEx's annual average production guidance for 2008 has been revised downwards to 4,000 boe per day from our previously announced guidance of 4,200 to 4,500 boe per day.

At the date of this MD&A, the Company is currently producing at approximately 3,800 boe per day and estimates that it has approximately 600 net boe per day of completed production awaiting tie-in. "Exit" production at year end is expected to be approximately 4,000 to 4,200 boe per day, depending on the exact timing of production additions.

ProspEx's overall production mix for the third quarter and nine months ending September of 2008 was 80% natural gas, with the remaining 20% being NGLs and oil. The production mix for both the third quarter and the nine months ending September 2007 was 85% gas, 15% NGLs and oil. The changes seen in 2008 are a reflection of the liquid rich production in the Harmattan and Ricinus areas which increased the Company's NGL and oil volumes.

Commodity Pricing

ProspEx Average Prices	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Natural gas (\$/mcf)				
Sales price	\$ 9.00	\$ 5.58	\$ 9.08	\$ 6.78
Realized gain (loss) on financial instrument	(0.86)	0.75	(0.53)	0.42
Average realized natural gas price	8.14	6.33	8.55	7.20
Oil (\$/bbl)	125.88	99.52	117.58	71.60
NGL (\$/bbl)	78.24	51.22	74.08	49.60
Average realized price (\$/boe)	55.65	40.89	56.65	44.83
Unrealized financial instrument gain (loss) (\$/boe)	23.36	(0.45)	0.90	(1.77)
Total average price (\$/boe)	\$ 79.01	\$ 40.44	\$ 57.55	\$ 43.06
Benchmark pricing				
AECO C Spot (\$/mcf)	\$ 7.75	\$ 5.18	\$ 8.62	\$ 6.55
Edmonton Par – light oil (\$/bbl)	\$ 121.74	\$ 79.95	\$ 115.11	\$ 72.99

Average natural gas sales prices increased 61% to \$9.00 per mcf in the third quarter of 2008, compared to \$5.58 per mcf in the third quarter of 2007. During the third quarter of 2008, AECO C daily spot prices for natural gas increased 50% per mcf compared to the third quarter of 2007 and the AECO monthly index for the same period increased 65% per mcf.

Realized natural gas prices for the third quarter of 2008 averaged \$8.14 per mcf, an increase of 29% from \$6.33 per mcf realized in the third quarter of 2007. For the nine months ending September 30, 2008 the realized natural gas price increased 19% to \$8.55 per mcf compared to \$7.20 per mcf for the same period of 2007. Overall 2008 realized natural gas prices have increased reflecting the improvements in the commodity markets for 2008.

Oil prices received for the third quarter of 2008 were \$125.88 per barrel ("bbl"). This is a 26% increase from the \$99.52 per bbl received in the third quarter of 2007, consistent with the increase in benchmark pricing. For the nine months ending September 30, 2008, the oil price received was \$117.58 per bbl, an increase of 64% from the same period of 2007.

The price realized for NGLs in the third quarter of 2008 was \$78.24 per bbl, an increase of 53% from \$51.22 per bbl in the third quarter of 2007. On a year to date basis, the NGL price as of September 30, 2008 was \$74.08 per bbl which is an increase of 49% over the \$49.60 per bbl received at September 30, 2007. The increases in NGL prices in the third quarter were due to the same reasons mentioned above as NGL prices tend to follow the same trends as oil.

Financial Instruments

For the quarter and nine months ended September 30, 2008, the Company's risk management program resulted in net realized losses of \$1.5 million and \$2.8 million respectively, compared to a \$1.5 million net realized gain and a \$2.3 million net realized gain for the same periods in 2007.

The financial instruments open as of September 30, 2008 are described in detail in the financial instruments, risk management and capital management strategy note to the consolidated financial statements (note 5). The impact of the changes in the fair values of open financial instruments was an unrealized gain of \$8.3 million for the quarter

ended September 30, 2008 and an unrealized gain of \$1.0 million for the first nine months of the year. This compares to an unrealized loss of \$0.2 million for the third quarter of 2007 and an unrealized loss of \$1.9 million for the first nine months of 2007. Decreases in forward prices have led to the reversal of the losses seen in the first half of the year on the Company's open financial instruments.

Royalty Expenses

(\$000's)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Crown	\$ 3,152	\$ 1,802	\$ 8,679	\$ 4,917
Freehold and gross overriding	<u>1,445</u>	<u>1,249</u>	<u>3,536</u>	<u>2,474</u>
Total Royalties	<u>\$ 4,597</u>	<u>\$ 3,051</u>	<u>\$ 12,215</u>	<u>\$ 7,391</u>
\$ per boe	\$ 12.98	\$ 7.79	\$ 11.22	\$ 6.96
As a percentage of oil and gas revenue	23%	19%	20%	16%

In the third quarter of 2008, royalties totaled \$4.6 million or 23% of revenue compared to last year's \$3.0 million or 19% of revenue. During the first nine months of 2008 royalties totaled \$12.2 million or 20% of revenue compared to \$7.4 million or 16% of revenue for the same period of 2007. The Company's 2008 royalty rate is expected to be higher than 2007 as a result of the shift in the production mix from the lower royalty rate wells in Medallion to higher royalty rate wells in West Central Alberta and the Deep Basin.

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 September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Operating costs (\$000's)	\$ 2,750	\$ 3,298	\$ 9,524	\$ 8,435
Operating costs (\$/boe)	\$ 7.76	\$ 8.42	\$ 8.75	\$ 7.94

Operating costs for the third quarter were \$2.8 million or \$7.76 per boe, compared to \$3.3 million or \$8.42 per boe in the third quarter of 2007. Operating costs for the third quarter were lower than the second quarter of 2008 as a result of a reversal of previously accrued processing fees in the Deep Basin area.

Operating costs for the first nine months of the year were \$9.5 million or \$8.75 per boe compared to \$8.4 million or \$7.94 per boe for the first nine months of 2007. Operating costs for the first quarter of 2008 were high as a result of additional spending required to integrate newly acquired properties and the cost to address operational issues in the Medallion area. Due to higher costs early in the year, the nine months ending September 2008 remain higher than the prior year despite lower costs in the current quarter.

Transportation Expenses

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Transportation expenses (\$000's)	\$ 322	\$ 349	\$ 1,042	\$ 1,032
Transportation expenses (\$/boe)	\$ 0.91	\$ 0.89	\$ 0.96	\$ 0.97

Transportation expense per boe for the three and nine months ended September 30, 2008 is consistent with the comparable periods of 2007.

General and Administrative Expenses

(\$000's)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Gross general and administrative	\$ 1,870	\$ 1,653	\$ 5,490	\$ 4,896
Recoveries	(217)	(166)	(688)	(714)
Capitalized expenses	(749)	(704)	(2,242)	(1,938)
Net general and administrative expenses	\$ 904	\$ 783	\$ 2,560	\$ 2,244
Net general and administrative expenses (\$/boe)	\$ 2.55	\$ 2.00	\$ 2.35	\$ 2.11

Gross general and administrative costs increased by \$0.6 million in the nine months ended September 30, 2008 compared to the same period in 2007, due to higher salary expenses in the current year. Reduced production volumes and higher salary costs resulted in the \$0.55 per boe difference in net general and administrative expenses in the third quarter of 2007 compared to the same quarter in 2008.

Interest and Bank Charges

Interest and bank charges of \$0.4 million in the third quarter and \$1.5 million year to date in 2008 were slightly lower compared to the prior year amounts of \$0.6 million and \$1.5 million, although average debt levels have remained consistent over the past year, slight interest rate decreases in the quarter have resulted in interest expense reductions.

Depletion, Depreciation and Accretion

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Depletion, depreciation and accretion (\$000's)	\$ 9,006	\$ 9,270	\$ 25,066	\$ 25,145
Depletion, depreciation and accretion (\$/boe)	\$ 25.43	\$ 23.69	\$ 23.03	\$ 23.67

Depletion, depreciation and accretion expense per boe in the third quarter and first nine months of 2008 was \$25.43 per boe and \$23.03 per boe respectively. This is an increase from the third quarter 2007 rate of \$23.69 per boe and a decrease from the first nine months of 2007 rate of \$23.67 per boe.

Stock-Based Compensation

Stock-based compensation expenses were down slightly for the three and nine months ended September 30, 2008 from \$0.3 million and \$0.8 million respectively in 2007, to \$0.2 million and \$0.7 million respectively in 2008. Costs are down as the initial grant of stock options and special performance units in 2004 have been fully recognized, with no new options granted in the third quarter of 2008.

Income Taxes

In the third quarter of 2008, the Company's future income tax expense was greater than the same period in 2007 at \$2.8 million compared to a reduction of \$0.5 million, as a result of the \$8.3 million increase in the unrealized financial instrument gain from June 30, 2008. For the nine months ending September 30, 2008 future income tax expense totaled \$3.0 million, down from \$0.1 million in September of 2007, for the same reason as noted above.

During the first quarter of 2008, the renouncement of flow-through shares resulted in an increase of future tax liability of \$2.2 million (2007 - \$4.5 million).

Estimated tax pools as at September 30:

(\$000's)	2008	2007
Canadian development expense	\$ 34,120	\$ 32,020
Canadian exploration expense	29,961	34,951
Canadian oil & gas property expense	39,012	29,634
Undepreciated capital cost	43,859	45,569
Other	5,003	4,654
	\$ 151,955	\$ 146,828

ProspEx has met its commitment to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing.

Capital Expenditures

Capital expenditures were \$15.9 million during the third quarter of 2008, compared to expenditures of \$13.1 million in the third quarter of 2007. Details of these expenditures for the periods ended September 30 were as follows:

(\$000's)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Drilling and completions	\$ 8,761	\$ 9,585	\$ 20,905	\$ 20,454
Facilities	564	1,383	7,184	11,115
Land and lease	2,600	300	5,513	3,857
Seismic	19	1,081	2,846	2,096
Capitalized G&A	<u>749</u>	<u>704</u>	<u>2,243</u>	<u>1,938</u>
Exploration & development capital expenditures	12,693	13,053	38,691	39,460
Net property acquisitions	3,156	-	9,206	-
Other capital expenditures	1	49	159	157
Total capital expenditures	\$ 15,850	\$ 13,102	\$ 48,056	\$ 39,617

Of the \$12.7 million invested in exploration and development capital expenditures, \$2.3 million was spent in the Deep Basin, \$8.9 million in West Central Alberta, \$0.4 million in Southern Alberta, and \$1.1 million on corporate items. The Company participated in drilling 10 (5.2 net) wells in the third quarter with a 100% success rate. The drilling activity was mainly in the West Central area with positive results in Ricinus, Harmattan and Willesden Green. Capital spent in the third quarter on land acquisitions were focused in the Company's Ricinus and Deep Basin areas. The property acquisition was in the Ricinus area and is described in more detail below.

In the first nine months of 2008, \$21.0 million was spent to drill and complete 17 (9.0 net) wells with a 95% net success rate.

The Company has participated in \$9.2 million of acquisition and disposition activity during the first nine months of the year. During the first quarter of 2008 the Company acquired certain properties in the Ricinus area of Alberta for \$11.5 million after closing adjustments. These properties consist of 16 (11.9 net) wells with net production at acquisition of approximately 360 boe per day. In the second quarter of 2008 the Company sold certain non-operated properties in the Granum area for net proceeds of \$5.4 million after closing adjustments. These properties consisted of 5 (1.0 net) producing wells with net production at disposition of approximately 110 boe per day. In the third quarter of 2008 the Company acquired additional properties in the Ricinus area of Alberta for \$3.4 million. These properties consist of 13 (1.2 net) producing wells, with net production of approximately 60 boe per day and 400 net acres of undeveloped land.

Business Environment

Recent months have shown a substantial deterioration in equity and credit markets, as well as a significant decline in commodity prices. ProspEx's philosophy is to maintain a strong balance sheet and preserve financial flexibility in these uncertain times, while balancing the need to develop its assets and capture new opportunities.

Given the current conditions in equity and credit markets, ProspEx anticipates that access to capital will be restricted or unavailable to oil and gas companies in the near term. The Company is therefore planning a capital budget approximately equivalent to cash flow until market conditions improve. Although the Company has not finalized a 2009 business plan, ProspEx expects that a capital budget in 2009 equivalent to the Company's forecasted cash flow at current forward prices should offset current production declines and allow the Company to maintain current production levels through 2009. This capital program is expected to be oriented towards developing higher growth properties at Kakwa in the Deep Basin, and Ricinus in West Central Alberta, as well as securing new opportunities. ProspEx expects that capital and commodity markets will demonstrate considerable volatility for the foreseeable future, and will continue to monitor the markets carefully.

Liquidity & Capital Resources

At September 30, 2008, 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	\$ (10,081)
Long-term debt	(38,110)
Bank facilities available	65,000
Total capital resources available	\$ 16,809

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

On July 22, 2008, one of ProspEx's natural gas liquids purchasers announced that it had filed for creditor protection. At September 30, 2008, ProspEx has exposure of approximately \$15,000 with this counterparty.

Subsequent to the quarter end, the Company obtained a counterparty guarantee of its natural gas and liquid purchases from its major purchaser for \$5.5 million. The Company believes that this guarantee is sufficient to ensure prompt payment for all transactions with this counterparty.

Bank Debt

At September 30, 2008 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 dependant upon the Company's debt/cash flow ratio as calculated in the previous quarter. Stamping fees for bankers' acceptances are based on a rate adjusted over the term to maturity plus a margin as described above. 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 balloon payment 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.

Share Capital

As at September 30, 2008, ProspEx had 57,383,377 common shares (2007 – 53,975,551), 2,018,054 warrants (2007 – 2,772,218), and 4,866,887 options (2007 – 4,595,917) issued and outstanding. Each warrant and option, upon exercise, entitles the holder to one common share.

As at November 6, 2008, ProspEx had 57,385,162 common shares, 2,016,269 warrants, and 4,866,887 options issued and outstanding.

Contractual Obligations

The Company has committed to certain payments as follows:

Payments due (\$000's)	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ -	-	38,110	-	-	\$ -
Building lease	134	973	1,212	1,230	1,235	1,544
Process fees	126	400	300	47	-	-
Transportation	246	598	78	-	-	-
Other	4	15	7	-	-	-
Total	\$ 510	1,986	39,707	1,277	1,235	\$ 1,544

ProspEx has met its commitment to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing.

Off-Balance Sheet Arrangements

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

Summary of Quarterly Results

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

	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial (\$000's, except per share amounts)								
Oil and gas revenue	19,714	24,567	17,378	15,906	16,004	17,554	14,071	13,536
Net earnings (loss)	6,923	2,261	(2,110)	(180)	(1,352)	2,235	(1,794)	2,143
Per share - basic	0.12	0.04	(0.04)	0.00	(0.03)	0.04	(0.03)	0.04
- diluted	0.12	0.04	(0.04)	0.00	(0.03)	0.04	(0.03)	0.04
Average Daily Production								
Oil (bbls/d)	65	108	68	125	82	210	83	184
NGL (bbls/d)	722	851	536	515	548	513	290	276
Natural Gas (mcf/d)	<u>18,379</u>	<u>19,957</u>	<u>19,064</u>	<u>19,690</u>	<u>21,743</u>	<u>21,108</u>	<u>16,757</u>	<u>16,221</u>
Total (boe/d)	3,850	4,285	3,781	3,922	4,254	4,241	3,166	3,164
Operating Netbacks (\$/boe)								
Price ⁽¹⁾	55.65	63.00	50.50	44.09	40.89	45.48	49.38	46.50
Royalties	(12.98)	(11.97)	(8.57)	(5.41)	(7.79)	(3.97)	(9.85)	(7.16)
Transportation	(0.91)	(1.00)	(0.96)	(0.86)	(0.89)	(1.01)	(1.03)	(0.96)
Operating Cost	<u>(7.76)</u>	<u>(8.39)</u>	<u>(10.17)</u>	<u>(8.06)</u>	<u>(8.42)</u>	<u>(7.86)</u>	<u>(7.38)</u>	<u>(7.39)</u>
Operating Netback	34.00	41.64	30.80	29.76	23.79	32.64	31.12	30.99

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

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

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

Operating netbacks are driven by price, operating costs and royalties. The average price received fluctuates with trends in worldwide commodity prices. Operating costs have increased due to growth in the proportion of production from higher cost areas such as the Deep Basin and West Central Alberta. Royalties are driven by the mix of Crown and freehold mineral rights in the Company's production stream, as well as by various Crown royalty incentive programs, changes to Crown royalty programs over time, and the terms of negotiated freehold royalty arrangements.

NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted and Recent Pronouncements

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

Capital Disclosures - Effective January 1, 2008, ProspEx adopted the new requirements of the CICA for disclosure of the Company's objectives, policies and processes for managing capital (Section 1535) as discussed in note 5 of the Third Quarter Financial Statements.

Internal Control Reporting – On July 11, 2008, Canadian Securities Administrators issued a staff notice accepting a replacement of the current multilateral instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The notice requires annual certification by the CEO and CFO of the effectiveness of internal controls over financial reporting ("ICFR") as of the end of the financial year and disclosure conclusions regarding the effectiveness of ICFR in the annual MD&A. This notice will apply for the Company's year ended December 31, 2008. The Company expects to meet the December 31, 2008 certification requirements.

Convergence with International Reporting Standards – On February 13, 2008, the Canadian Accounting Standards Board confirmed that the effective date for the convergence of Canadian Generally Accepted Accounting Standards for publicly accountable entities to International Financial Reporting Standards will be January 1, 2011. As ProspEx will be required to report under these new standards, the Company has started a preliminary assessment of the potential impacts of this changeover and will develop its conversion plan accordingly.

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 September 30, 2008, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiary, is made known to them by others within those entities. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

ADVISORIES

Within the MD&A references are made to terms commonly used in the oil and gas industry. "Cash flow" is not defined by GAAP in Canada and is referred to as a non-GAAP 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.

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)	September 30, 2008	December 31, 2007
Assets		
Current assets		
Accounts receivable	\$ 10,727	12,900
Prepaid expenses	877	988
Unrealized financial instrument gain	1,191	214
	<u>12,795</u>	<u>14,102</u>
Property, plant and equipment, net	<u>185,600</u>	<u>161,663</u>
	<u>\$ 198,395</u>	<u>175,765</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,685	22,761
Future income tax liability (note 3)	351	69
	<u>22,036</u>	<u>22,830</u>
Long term debt (note 2)	38,110	28,846
Asset retirement obligation	6,298	5,201
Future income tax liability (note 3)	8,329	3,145
	<u>74,773</u>	<u>60,022</u>
Total liabilities	<u>74,773</u>	<u>60,022</u>
Shareholders' Equity		
Share capital (note 4)	92,032	92,204
Contributed surplus (note 4)	6,591	5,614
Retained earnings	24,999	17,925
	<u>123,622</u>	<u>115,743</u>
Total shareholders' equity	<u>123,622</u>	<u>115,743</u>
	<u>\$ 198,395</u>	<u>175,765</u>

See accompanying notes to consolidated financial statements

Prospect Resources Ltd.
Consolidated Statements of Earnings (Loss), Comprehensive Earnings and Retained Earnings
For the periods ended
(unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
(Stated in thousands of dollars, except per share amounts)				
Revenue				
Oil and gas	\$ 19,714	16,004	61,659	47,628
Unrealized financial instrument gain (loss)	8,277	(175)	977	(1,876)
Royalties	(4,597)	(3,051)	(12,215)	(7,391)
	<u>23,394</u>	<u>12,778</u>	<u>50,421</u>	<u>38,361</u>
Expenses				
Depletion, depreciation and accretion	9,006	9,270	25,066	25,145
Operating	2,750	3,298	9,524	8,435
Transportation	322	349	1,042	1,032
General and administrative	904	783	2,560	2,244
Interest and bank charges	449	585	1,473	1,541
Stock-based compensation	236	307	667	828
	<u>13,667</u>	<u>14,592</u>	<u>40,332</u>	<u>39,225</u>
Earnings (loss) before taxes	9,727	(1,814)	10,089	(864)
Income Taxes (note 3)				
Future	2,804	(462)	3,015	47
Net earnings (loss) and comprehensive earnings for the period	6,923	(1,352)	7,074	(911)
Retained earnings, beginning of period	18,076	19,457	17,925	19,016
Retained earnings, end of period	\$ 24,999	18,105	24,999	18,105
Net earnings (loss) per share				
Basic	\$ 0.12	(0.03)	0.12	(0.02)
Diluted	\$ 0.12	(0.03)	0.12	(0.02)

See accompanying notes to consolidated financial statements

ProspEx Resources Ltd.
Consolidated Statements of Cash Flows
For the periods ended
(unaudited)

(Stated in thousands of dollars)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Operations				
Net earnings (loss) for the period	\$ 6,923	(1,352)	7,074	(911)
Items not involving cash				
Depletion, depreciation and accretion	9,006	9,270	25,066	25,145
Stock-based compensation	236	307	667	828
Future income taxes	2,804	(462)	3,015	47
Unrealized financial instrument (gain) loss	(8,277)	175	(977)	1,876
Asset retirement expenditures	(66)	(26)	(111)	(351)
	<u>10,626</u>	<u>7,912</u>	<u>34,734</u>	<u>26,634</u>
Changes in non-cash working capital	1,793	9,737	1,490	(175)
	<u>12,419</u>	<u>17,649</u>	<u>36,224</u>	<u>26,459</u>
Financing				
Issuance of common shares	257	28	1,675	338
Increase (decrease) in long-term debt	1,595	(10,057)	9,264	15,700
	<u>1,852</u>	<u>(10,029)</u>	<u>10,939</u>	<u>16,038</u>
Investments				
Exploration and development expenditures	(12,693)	(13,053)	(38,691)	(39,460)
Property acquisition	(3,156)	-	(9,206)	-
Expenditures on asset held for resale	-	-	-	937
Deposit on property acquisition	-	-	1,175	-
Other capital expenditures	(1)	(49)	(159)	(157)
	<u>(15,850)</u>	<u>(13,102)</u>	<u>(46,881)</u>	<u>(38,680)</u>
Changes in non-cash working capital	1,579	5,482	(282)	(3,817)
	<u>(14,271)</u>	<u>(7,620)</u>	<u>(47,163)</u>	<u>(42,497)</u>
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2008
(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, 2007 except as described below. Preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates. The disclosures included below are incremental to those included with the annual consolidated financial statements except as disclosed below. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2007.

1. CHANGES IN ACCOUNTING POLICIES

(a) Financial Instruments

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

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

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

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

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

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

(b) Capital Disclosures

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

2. LONG TERM DEBT

At September 30, 2008 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 dependant upon the Company's debt/cash flow ratio as calculated in the previous quarter. Stamping fees for bankers' acceptances are based on a rate adjusted over the term to maturity plus a margin as described above. 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 balloon payment 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.

3. FUTURE INCOME TAXES

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

(\$000's)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Earnings (loss) before taxes	\$ 9,727	\$ (1,814)	\$ 10,089	\$ (864)
Rate (%)	29.50%	32.12%	29.50%	32.12%
Computed expected provision (reduction) for future income taxes	2,869	(583)	2,976	(278)
Increase (decrease) in taxes resulting from:				
Stock-based compensation expensed	70	99	197	266
Effect of change in tax rate	(135)	(116)	(304)	(79)
Other	-	138	146	138
Income tax expense	\$ 2,804	\$ (462)	\$ 3,015	\$ 47

The current future income tax liability at September 30, 2008 of \$0.4 million (December 31, 2007 - \$0.1 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)	September 30, 2008	December 31, 2007
Property, plant and equipment	\$ 9,910	\$ 3,744
Asset retirement obligation	(1,703)	(509)
Share issue costs	(378)	(590)
	7,829	2,645
Valuation allowance	500	500
Future income tax liability	\$ 8,329	\$ 3,145

At September 30, 2008, the Company had estimated tax pools available to reduce future taxable income of \$152.0 million (September 30, 2007 - \$146.8 million). ProspEx has met its commitment to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing.

Capitalized stock based compensation resulted in an increase to future tax liabilities of \$0.2 million during nine months ended September 30, 2008 (2007 - \$0.4 million) and for each of the three month periods ended September 30, 2008 and 2007, an increase to future tax liabilities of \$0.1 million.

During the first quarter of 2008, the renouncement of flow-through shares resulted in an increase of future tax liability of \$2.2 million (2007 - \$4.5 million).

4. SHARE CAPITAL

(a) Common Shares & Common Share Performance Warrants Issued

	Three month period ended September 30, 2008		Nine month period ended September 30, 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	57,199	\$ 90,428	56,453	\$ 90,543
Flow-through shares tax adjustment	-	-	-	(2,218)
Issued on exercise of stock options	-	-	232	746
Shares issued on exercise of warrants	184	370	698	1,404
Issue costs, net of future tax reduction of \$14	-	-	-	(34)
Adjustment to contributed surplus for options exercised				357
Balance at the end of the period	57,383	\$ 90,798	57,383	\$ 90,798
Common share performance warrants				
Balance at the beginning of the period	2,202	\$ 1,347	2,716	\$ 1,661
Exercised	(184)	(113)	(698)	(427)
Balance at the end of the period	2,018	\$ 1,234	2,018	\$ 1,234
Share capital at the end of the period		\$ 92,032		\$ 92,032

All outstanding performance warrants entitle the holder to acquire a common share at a price of \$1.40 and expire no later than October 1, 2009.

(b) Contributed Surplus

(000's)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Balance at the beginning of the period	\$ 6,119	\$ 5,276	\$ 5,614	\$ 4,348
Stock-based compensation	472	614	1,334	1,656
Exercise of stock options	-	-	(357)	(114)
Balance at the end of the period	\$ 6,591	\$ 5,890	\$ 6,591	\$ 5,890

(c) Stock Options

Changes in outstanding stock options are summarized below:

	Three month period September 30, 2008		Nine month period September 30, 2008	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding at beginning of period	5,036	\$ 3.60	4,656	\$ 3.62
Granted	-	-	612	3.32
Exercised	-	-	(232)	3.22
Cancelled	(169)	4.30	(169)	4.30
Outstanding at the end of the period	4,867	\$ 3.58	4,867	\$ 3.58

The following table summarizes stock options outstanding and exercisable at September 30, 2008:

Range of exercise price	Options outstanding			Options exercisable	
	Number of outstanding at period end (000s)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at period end (000s)	Weighted average exercise price
\$ 2.95 - \$ 3.45	2,398	1.94	\$ 3.22	1,751	\$ 3.23
\$ 3.48 - \$ 3.95	1,714	2.97	\$ 3.79	894	\$ 3.81
\$ 4.00 - \$ 4.46	755	3.44	\$ 4.24	265	\$ 4.23
	4,867	2.54	\$ 3.58	2,910	\$ 3.50

No options were granted during the third quarter of 2008. The fair value of options granted during the third quarter of 2007 was \$0.3 million, and during the first nine months of 2008 was \$0.8 million (2007 - \$2.6 million). The fair value is determined using the Black-Scholes option pricing model with the following weighted average assumptions for grants as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Risk free interest rate	n/a	4%	3%	4%
Expected life	n/a	5 years	5 years	5 years
Expected volatility	n/a	35%	47%	43%
Expected dividend yield	n/a	Nil	Nil	Nil

The estimated fair values of the options and the special performance units are being amortized to expense over the vesting period. During the three months ended September 30, 2008, a total of \$0.2 million (2007 - \$0.3 million) of stock based compensation was recorded against income and \$0.2 million (2007 - \$0.3 million) was capitalized. During the nine months ended September 30, 2008 a total of \$0.7 million (2007 - \$0.8 million) of stock based compensation was recorded against income and \$0.7 million (2007 - \$0.8 million) was capitalized.

(d) Per Share Amounts

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Weighted average common shares basic	57,200,496	53,965,986	56,943,470	53,895,335
Dilutive securities:				
Stock options	-	286,084	133,884	384,272
Performance warrants	1,014,149	1,753,733	1,261,976	1,838,422
Special performance units	-	241,632	-	250,767
Diluted	58,214,645	56,247,435	58,339,330	56,368,796

For the three months ended September 30, 2008, a total of 4,867,000 (September 30, 2007 - 2,600,000) options were excluded from the diluted calculations as they were anti-dilutive. The nine month year to date equivalent number of options excluded due to their anti-dilutive impact was 3,761,400 (2007 - 2,300,000).

5. 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 September 30, 2008 the Company's receivables consisted of \$3.2 million (December 31, 2007 - \$5.3 million) from joint venturers, \$5.5 million (December 31, 2007 - \$5.1 million) of receivables from petroleum and natural gas marketers and \$2.0 million (December 31, 2007 - \$2.5 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 September 30, 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended September 30, 2008.

Liquidity risk

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

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

The following are the contractual maturities of financial liabilities and associated interest payments due as at September 30, 2008:

Financial Liability (\$000's)	< 1 year	1 - 2 years	2 - 5 years	Thereafter
Accounts payable and accrued liabilities	\$ 21,685	-	-	-
Long term debt	-	38,110	-	-
Total	\$ 21,685	38,110	-	-

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 September 30, 2008.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial derivative sales contracts. The Company's contracts in place as of September 30, 2008 are as follows:

<u>Type</u>	<u>Amount (GJ/d)</u>	<u>Term</u>	<u>Price (\$/GJ) at AECO</u>	<u>Type</u>
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.50 - \$6.75	Physical
Collar	1,000	April 1, 2008 – October 31, 2008	\$6.50 - \$6.90	Physical
Collar	1,000	April 1, 2008 – October 31, 2008	\$6.50 - \$7.13	Financial
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.50 - \$7.45	Financial
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.50 - \$7.75	Financial
Collar	2,000	April 1, 2008 – October 31, 2008	\$6.75 - \$7.62	Financial
Collar	2,000	November 1, 2008 – March 31, 2009	\$7.00 - \$8.80	Financial
Collar	2,000	November 1, 2008 – March 31, 2009	\$7.00 - \$9.15	Financial
Put	2,000	November 1, 2008 – March 31, 2009	\$10.00	Financial

The contracts in place during the three months ended September 30, 2008 resulted in an unrealized gain of \$8.3 million (2007 - \$0.2 million loss) and a realized loss of \$1.5 million (2007 - \$1.5 million gain). During the first nine months of the year ended September 30, 2008 the contracts in place resulted in an unrealized gain of \$1.0 million (2007 - \$1.9 million loss) and a realized loss of \$2.8 million (2007 - \$2.3 million gain).

With respect to commodity prices, during the three and nine month period ended September 30, 2008, a one dollar increase in the price per GJ of natural gas relevant only to the Company's production dedicated to derivative financial instruments would have resulted in a net earnings decrease of \$0.1 million. A \$1.00 decrease in the price per GJ of natural gas on the same production would have increased net earnings for the three and nine months ended September 30, 2008 by \$0.1 million. 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 September 30, 2008. For the three months ended September 30, 2008, a difference in the interest rate of 1% would change net earnings by an estimated \$0.1 million (nine months ended September 30, 2008 - \$0.2 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)	September 30, 2008	December 31, 2007
Shareholders' equity	\$ 123,622	\$ 115,743
Bank debt	38,110	28,846
Working capital deficiency excluding unrealized financial instrument gain or losses and associated future tax assets or liabilities	10,081	8,873

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 September 30, 2008 the Company's ratio of net debt to annualized operating cash flow was 1.1 to 1.0 (September 30, 2007 – 1.4 to 1.0), and compares to the ratio of 1.0 to 1.0 for the year ended December 31, 2007. The increase during the third quarter is consistent with the improved cash flow in the third quarter.

The Company's share capital is not subject to any external restrictions. The bank debt facility has no restrictions other than the limitation of borrowing under the facility on an annual basis. As at September 30, 2008, the Company is in compliance with all flow-through share expenditure requirements as well as all bank facility requirements.

There have been no changes to the Company's capital management strategy during the quarter ended September 30, 2008.

6. ADDITIONAL DISCLOSURES

(a) Interest and Taxes Paid

Net cash interest paid during the quarter was \$nil (2007 - \$0.2 million). Cash taxes paid during the period was \$nil (2007 - \$nil). On a year to date basis, net cash interest paid to September 30, 2008 was \$1.1 million (2007 - \$1.6 million). Year to date cash taxes paid to September 30, 2008 was \$nil (2007 - \$nil).

(b) Asset Retirement Obligation

For the nine month period and quarter ended September 30, 2008, asset retirement obligation increased by \$0.9 million and \$0.3 million respectively (2007 nine months - \$0.5 million, 2007 quarter end - \$0.2 million), with a corresponding increase to Property, Plant and Equipment.

7. COMMITMENTS

The Company has committed to certain future payments as follows:

Payments due (\$000's)	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ -	-	38,110	-	-	\$ -
Building lease	134	973	1,212	1,230	1,235	1,544
Process fees	126	400	300	47	-	-
Transportation	246	598	78	-	-	-
Other	4	15	7	-	-	-
Total	\$ 510	1,986	39,707	1,277	1,235	\$ 1,544

ProspEx has met its commitment to incur \$8.0 million in qualifying Canadian exploration expenditures related to the December 2007 flow-through share financing.

Contact Information

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