

Progress

Progress Energy Resources Corp.
Annual Report to Shareholders

2008

To Our Shareholders,

In November 2008 we announced the merger of Progress Energy Trust and ProEx Energy Ltd., to create Progress Energy Resources Corp. (“Progress”), a growth focused, mid-size natural gas exploration and production company. We were pleased with the show of support as stakeholders of both companies voted strongly in favor of the merger which closed on January 15, 2009. The impetus for the merger was two-fold: to create an entity with the size and scale necessary to maximize the value of our resource-play opportunities in the Western Canadian Sedimentary Basin and to create a more liquid growth and dividend orientated company to respond to changes occurring in the capital markets.

The shift from conventional exploration and production to a focus on unconventional assets has transformed and revitalized parts of the Western Canadian Sedimentary Basin. Advances in horizontal drilling and completions technologies are opening geologic fairways that have long been known to hold vast amounts of natural gas but have been difficult to produce either technically or economically.

High Quality Assets

Our asset base is concentrated in two key operating regions of the Western Canadian Sedimentary Basin; the Deep Basin of northwest Alberta and the Foothills of northeast British Columbia. We have amassed a large, contiguous land base of over 1.1 million net undeveloped acres within these areas containing an inventory in excess of 500 drilling locations. Our strategy includes maintaining high working interests, investing in the gathering and processing infrastructure, and maintaining operatorship in order to better control costs and the pace of development.

The Deep Basin of northwest Alberta is characterized by its thick, multiple stacked producing natural gas horizons in a very concentrated area. Our main focus is on the Gold Creek Project area which covers approximately 10 townships in size and is currently drilled on less than one well per section. Analogous plays in the Deep Basin have been down-spaced to four or more wells per section and we intend to develop the Gold Creek Project area on four wells per section, or approximately 160 locations, providing about four to five years of inventory at the current pace. We also maintain an ownership in the gathering and processing infrastructure creating a competitive advantage over other producers.

Since 2002, the Halfway formation has been our primary target in the Foothills of northeast British Columbia. The Halfway is a thick, tight sandstone at approximately 1,800 meters in depth. We have drilled approximately 200 Halfway vertical wells with an average reserve booking of approximately two billion cubic feet per well. In addition to the Halfway, we have expanded our inventory through the exploration and development of the deeper Mississippian Debolt and the shallower Cretaceous Bluesky and Gething sands. Owning large contiguous blocks of land and stacking multiple producing horizons is how we have mitigated risk and achieved a drilling success rate of over 85 percent. Being an active driller also creates the opportunity to have a meaningful position in emerging resource plays such as the Montney formation. We are in the early stages of this play but we are one of the industry’s largest land holders with nearly 800,000 net undeveloped acres of Montney rights.

We believe our Deep Basin and Foothills assets continue to represent a tremendous opportunity to expand our inventory and apply our knowledge and understanding of the regional geology. Along with our historical capital efficiencies, these assets should continue to create value for our shareholders.

Operational and Financial Results

In 2008, the combined companies replaced 200 percent of production and grew proved plus probable reserves by nine percent to 152.6 million barrels of oil equivalent (“boe”) with a reserve life index of approximately 12 years. We also invested over \$70 million in exploration land in 2008 adding over 300,000 net undeveloped acres through Crown land sales, farm-ins and purchases from industry competitors. Cumulatively since inception of Progress Energy Trust and ProEx Energy Ltd., in July 2004, the combined companies have been industry leaders with strong capital efficiencies. Approximately \$1.2 billion has been invested in exploration and development activities resulting in a combined company proved plus probable finding and development cost of approximately \$12.00 per boe or \$2.00 per thousand cubic feet.

The merger also created the opportunity to expand our revolving credit facility to \$650 million with a syndicate of banks. The balance sheet was further strengthened through a \$30 million flow-through share offering in November 2008 and a \$140 million common share public offering in February 2009.

Commodity Environment

During 2008, the commodity markets experienced very volatile swings. The AECO natural gas price peaked on July 1, 2008 at C\$11.24 per gigajoule (GJ) and then proceeded to fall to C\$5.50 per GJ before settling in the range of C\$6.00 per GJ for the remainder of 2008. It reached a low of C\$3.54 per GJ in early 2009 but recently has been strengthening.

Natural gas production in U.S. has shown significant year-over-year growth as a result of higher levels of drilling activity focused on shale and tight gas plays. Advances in completions techniques are helping companies bring these wells on at high initial rates which results in much higher first year decline rates. The pace of drilling activity in the U.S. peaked in September 2008 with over 1,600 rigs operating but has fallen since that time to a current level of approximately 850 rigs drilling. We believe this fall in drilling activity will make it increasingly difficult for U.S. natural gas production to show year-over-year increases through 2009 and 2010.

On the supply side, there has been much discussion about the potential for further imports of liquefied natural gas ("LNG") into the U.S. Although we anticipate growth in LNG supply to the U.S. given the relatively well developed natural gas storage network in the U.S., we believe that other markets in Asia and Europe provide higher relative pricing for LNG and are more likely destinations for incremental cargoes. World LNG supply is expected to continue to grow with new liquefaction plants proposed or under construction while LNG demand in China and India is expected to grow with the construction of regasification facilities.

On the demand side, the economic downturn has had a negative effect on industrial production and specifically the demand for natural gas in the industrial sector. In North America, residential and commercial demand will continue to be directly affected by weather as will natural gas demand in the electric power generation sector for air conditioning load in the summer. On balance, we believe that the supply-demand balance for natural gas will begin to tighten in the second half of 2009 and strengthen heading into 2010 as the economy recovers and supply declines become more evident.

Outlook

We are optimistic about the prospects for Progress given our high quality asset base, inventory of opportunities, strong financial position, low cost structure and strength of our technical and financial professionals. These attributes are essential to achieving our long-term strategy of generating growth in production and reserves in the range of 10 to 15 percent while paying a dividend to shareholders.

Progress is positioned to benefit from all points in the commodity and business cycles. During periods of low natural gas prices, as we are experiencing now, we will focus on long-term resource capture to position us for the next cycle. Our balance sheet provides the flexibility to take advantage of unique opportunities which add long-term value for shareholders. Our exploration and development capital program, originally set at between \$340 million and \$360 million for 2009, will be flexible to respond to changes in gas prices. In the near term, we expect to invest approximately \$100 million in the first quarter of 2009 as compared to the originally planned \$130 million.

On behalf of the management team at Progress, we would like to thank our dedicated employees for once again delivering strong results and maintaining a clear focus during challenging times. To our Board, we extend our appreciation for their insights and continued support as we work together to increase the value of every share of Progress.

Sincerely,



Michael R. Culbert
President and Chief Executive Officer
Progress Energy Resources Corp.

March 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

ProEx Energy Ltd.

The following discussion and analysis as provided by the Management of ProEx Energy Ltd. ("ProEx" or "Company") as of February 24, 2009, is to be read in conjunction with the accompanying audited financial statements and related notes for the years ended December 31, 2008 and 2007. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Non-GAAP Measures – Management uses certain industry benchmarks such as operating netback and total debt to cash flow ratio to analyze financial and operating performance. These benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback and total debt to cash flow ratio are used by research analysts to compare operating performance and a Company's ability to maintain current operations and the forecasted capital program. Operating netback is the net result of the Company's revenue net of realized gains and losses on financial instruments, and royalty, operating and transportation expenses as found in the accompanying year ended financial statements. The total debt to cash flow ratio is calculated by dividing total debt at the end of the period (comprised of the working capital deficit or surplus, and outstanding bank debt) by the 12 month trailing cash flow from operating activities before changes in non-cash working capital. The Company uses these measures to help evaluate its performance.

Forward-Looking Information – Certain information regarding ProEx set forth in this document, including Management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. Such statements represent ProEx's internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although ProEx believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause ProEx's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, ProEx.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to the size of, and future net revenues from, crude oil and natural gas reserves; the focus of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; payment of dividends; treatment of the Arrangement (as defined herein) under GAAP; the timing of capital spending and the company's ability to maintain flexibility in its capital program; allocation of capital investment budget; land expires; projections of market prices and costs; the performance characteristics of the Company's crude oil and natural gas properties; crude oil and natural gas production levels and production mix; location of production; ProEx's future operating and financial results; available tax pools; capital expenditure programs; supply and demand for crude oil and natural gas; expected average royalty rates; and treatment under governmental regulatory regimes and tax laws; accounting policies and adoption of new accounting policies; timing of implementation of International Financial Reporting Standards. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; volatility of commodity prices; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2008 which is available on www.sedar.com.

With respect to forward-looking statements contained in this MD&A, ProEx has made assumptions regarding: current commodity prices and royalty regimes; availability of skilled labour; North American sulphur prices; timing and amount of capital expenditures; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; royalty rates and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide Shareholders with a more complete perspective on ProEx's future operations and such information may not be appropriate for other purposes. ProEx's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Plan of Arrangement – Creation of Progress Energy Resources Corp.

On January 15, 2009 ProEx and Progress Energy Trust (“Progress” or the “Trust”) completed the plan of arrangement (the “Arrangement”) dated December 15, 2008 whereby ProEx acquired all of the issued and outstanding units of Progress and the exchangeable shares of Progress’ subsidiary, Progress Energy Ltd and changed its name to Progress Energy Resources Corp (the “Corporation”). The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and Progress Energy Resources Corp. received all of the assets and assumed all of the liabilities of the Trust including the 6.75 percent and 6.25 percent convertible unsecured subordinated debentures of the Trust. The Corporation is now a mid-sized natural gas focused exploration, development and production company and intends to pay quarterly dividends to shareholders.

As a result of the Arrangement, the former owners of the Trust own approximately 61 percent of the Corporation and the former owners of ProEx own approximately 39 percent. In accordance with GAAP, the Arrangement will be accounted for as a reverse takeover, whereby Progress will be deemed the acquirer of ProEx. Consequently, comparative amounts in future annual and interim filings will reflect the history of Progress. The total consideration of the reverse takeover was approximately \$663.3 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust Unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effects of normal issue costs and estimated transaction costs of \$10.1 million.

Subsequent to the Arrangement, the common shares of the Corporation trade on the Toronto Stock Exchange (“TSX”) under the symbol PRQ. The 6.75 percent and 6.25 percent convertible unsecured subordinated debentures (the “Debentures”), which are now Progress Energy Resources Corp.’s obligations, trade on the TSX under the symbols PRQ.DB and PRQ.DB.A, respectively.

Operations of the Corporation

The Corporation’s production for 2009 is expected to average 35,000 to 36,000 barrels of oil equivalent (“boe”) per day, which includes approximately 450 boe per day of production from ProEx prior to the completion of the Arrangement. The Corporation’s capital program, originally set at between \$340 million and \$360 million for 2009, will be flexible to respond to changes in natural gas prices. In the near term, the Corporation expects to invest \$100 million in the first quarter of 2009 as compared to \$130 million that was originally planned. Allocation and the level of capital investment will be adjusted depending on natural gas prices and capital markets. The Corporation will focus on maintaining balance sheet strength and long term resource capture in this time of low natural gas prices. The production mix for 2009 is expected to be 87 percent natural gas, seven percent crude oil and six percent natural gas liquids. Approximately 57 percent of the Corporation’s 2009 production is expected to be in British Columbia and approximately 43 percent is expected to be in Alberta.

Royalties - Management of the Corporation anticipate the average royalty rate for 2009, based on current commodity prices, to average approximately 19 percent of petroleum and natural gas revenue.

On October 25, 2007 the Alberta government announced the New Royalty Framework (“new framework”), to take effect on January 1, 2009. On November 19, 2008 the Alberta government announced that in response to the global economic crisis and a slowdown in oil and gas drilling throughout the province, companies drilling certain new wells after November 19, 2008, have a one-time option of selecting the transitional rates or the new framework rates. All wells drilled between 2009 and 2013 that adopt the transitional rates will be required to shift to the new framework rates on January 1, 2014. All current wells will move to the new framework on January 1, 2009 as previously scheduled.

The Corporation has reviewed the new framework and at current commodity prices, in early 2009, the rates under the new framework are consistent with the Alberta royalty rates experienced in the past.

The framework is based on a new simplified royalty formula for natural gas that operates on a sliding scale determined by commodity prices, well productivity and drilling depth. The Corporations Deep Basin well depths range between 2,300 to 2,700 meters which are eligible for the new measured depth drilling formula.

Operating Expense - Management of the Corporation anticipate operating expenses for 2009 to be between \$6.25 to \$6.50 per boe which includes the slightly higher average operating costs of Progress.

Transportation Expense – Transportation expense of the Corporation for 2009 is expected to average approximately \$3.00 per boe. The lower rate as compared to ProEx’s average transportation expense per boe for 2008 of \$4.52 is due to the addition of the Alberta properties, which typically have lower tolls compared to British Columbia where an all-in gathering, processing and transmission service is charged.

General and Administrative Expenses - Management anticipates general and administrative expenses for the Corporation to average approximately \$1.00 per boe in 2009. The estimate is consistent with the past results for ProEx.

Stock based compensation – In conjunction with the Arrangement, the Corporation has established a new stock option plan, as well as a share unit plan which includes both restricted unit awards and performance unit awards. The restricted unit awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance unit awards are similar to the restricted unit awards; however, a performance factor is applied to the grant on the vesting date. Subsequent to the Arrangement, 4,472,500 stock options were granted to employees and executives of the Corporation at an exercise price of \$11.40 per share.

Taxes – As at December 31, 2008, the available tax pools for 2009 and beyond for each of the Trust, including its subsidiary, and ProEx are as follows:

<i>(\$ thousands)</i>	Progress Energy Trust	ProEx
Canadian exploration expense	536,000	94,000 ⁽¹⁾
Canadian development expense	226,000	141,000
Canadian oil and gas property expense	168,000	168,000
Undepreciated capital cost	192,000	98,000
Non-capital losses	17,000	8,200
Share issue costs	10,000	7,500
Attributed Canadian Royalty Income	68,000	3,400

(1) Pursuant to ProEx’s December 16, 2008 flow-through common share offering, \$30.1 million of qualifying resource expenditures will be incurred prior to December 31, 2009.

Bank Debt - In conjunction with the Arrangement, the Corporation entered into a new \$650 million extendible revolving term credit facility for a period of at least 364 days until January 14, 2010, and such initial term out date may be extended for further 364 day periods, subject to approval by the banks (refer to the “Liquidity and Capital Resources” section below).

Share capital – As a result of the Arrangement, on January 15, 2009, 91,975,292 common shares of the Corporation were issued to the Trust unitholders and for certain Trust performance units that vested upon completion of the Arrangement. On February 18, 2009, the Corporation completed a share offering of 12,950,000 common shares at a price of \$10.85 per share. The underwriters have an over-allotment option to purchase an additional 1,942,500 common shares on the same terms and conditions as the offering, exercisable at any time from the closing of the offering until 30 days thereafter (refer to “Liquidity and Capital Resources” section below). Outstanding as at February 23, 2009 there were 164,627,370 common shares, \$130.7 million of Debentures convertible into 6,140,296 common shares, 6,027,367 stock options, and 911,909 performance units.

Sensitivities

Based on the above assumptions, the following sensitivities are provided to demonstrate the impact on net earnings of changes in commodity prices, production and interest rates.

(\$ thousands)	Estimated Effect on 2009	Estimated Effect on 2009
	Cash Flow ⁽¹⁾	Net Earnings ⁽¹⁾
Change of \$0.25 per mcf in the price of natural gas	13.9	9.8
Change of \$5.00 per barrel in the price of crude oil	4.6	3.3
Change of 5,000 mcf/d in natural gas production	7.0	5.0
Change of 500 bbls/d in crude oil production	6.2	4.4
Change of 1% in prime interest rates	4.3	3.0

(1) These sensitivities reflect all commodity contracts as described below. They apply to prices, production, and interest rates within the context of current market rates. The sensitivities above will no longer apply above the ceiling or below the floor.

(2) Sensitivities include the effect of the Arrangement.

Financial Price Risk Management	Contract Natural Gas Volumes ('000 gj/d)	% of Estimated of Production
First quarter of 2009	50	25

Description of Company

ProEx Energy Ltd. was a Calgary based, natural gas focused, exploration and development company, established on July 2, 2004. Primary operating areas included the northeast British Columbia Foothills and Fort St. John Plains regions. Common shares of ProEx traded on the Toronto Stock Exchange ("TSX") under the symbol PXE.

Relationship with Progress Energy Trust

ProEx was created as part of a plan of arrangement effective July 2, 2004 which included the creation of Progress. Prior to the Arrangement completed on January 15, 2009, ProEx had no ownership interest in Progress and Progress had no ownership interest in ProEx. Progress provided personnel and services to ProEx under a technical services agreement ("Technical Service Agreement"). The Technical Services Agreement was put in place to ensure the sharing of costs of operating both companies using the Trust's employees. ProEx had no employees. Progress provided personnel and certain administrative and technical services to ProEx in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. Progress provided these services in accordance with the Technical Services Agreement entered into with ProEx as described below.

ProEx and Progress also shared the cost of long-term compensation and consequently ProEx had granted performance shares and stock options to Progress executives and employees and common shares under the Trust's long term incentive compensation plan ("LTI") to non-executive employees of Progress in their capacity as service providers.

Under the terms of the LTI, non-executive Progress employees in their capacity as service providers were granted LTI awards to be paid in common shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. Awards granted under the LTI vest on the second anniversary date of the date of grant. ProEx agreed to reimburse Progress for this expense.

ProEx and Progress had joint interest in certain properties and undeveloped land in the northeast British Columbia Foothills and Fort St. John Plains regions. These joint interest properties were governed by standard industry agreements and in addition the Company had entered into a protocol arrangement ("Protocol Arrangement") with Progress that specified how each company managed the joint lands in specifically identified areas of interest. To ensure good governance practices, both ProEx and Progress had each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

Technical Services Agreement – The Technical Services Agreement had no set termination date and would have continued until terminated by either party with one year prior written notice to the other party or some other date as mutually agreed. The Technical Services Agreement was terminated effective January 15, 2009 as a result of the completion of the Arrangement. Pursuant to the Technical Services Agreement, the Company received services including management, development, exploitation, operations, administrative, and marketing, as well as information technology systems from Progress on an expense reimbursement basis, based on the Company's monthly capital activity and production levels relative to the combined capital activity and production levels of both ProEx and Progress.

Protocol Arrangement – The Protocol Arrangement identified methods and processes, which were to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. The Protocol Arrangement also outlined the practices to be followed in the event either party entered into areas outside of the identified areas of interest.

Independent Committee of the Board of Directors

Both ProEx and Progress had created independent committees of their Board of Directors to deal with technical services issues. The Committees' mandate included the following:

- To consider any issues related to the Technical Services Agreement between Progress and ProEx that they considered appropriate or that were directed to the Committee by Management.
- To meet with the Technical Services Committee or similar committee of Progress when appropriate.
- To advise the Board of Directors of decisions by the Technical Services Committee of interpretations, amendments or issues in dispute.

On April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress. ProEx's total consideration, including transaction costs of \$0.9 million was \$136.4 million. When considering the bid process for this acquisition, each of Progress and ProEx identified assets that they were interested in acquiring and values that they were willing to pay to acquire such assets. Progress made a single bid on behalf of ProEx and Progress and the ultimate purchase price was based on the prices that each of Progress and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets from Progress to ProEx was based on these allocations. The technical service committee reviewed the details of the transaction prior to the purchase and sale agreement being signed. All lands were subsequently managed in accordance with the Protocol Arrangement.

On November 30, 2007, ProEx and Progress jointly acquired certain assets in the Foothills region of British Columbia. The total cost of the acquisition of \$17.9 million was split in accordance with working interests currently held in the surrounding area. As a result, ProEx acquired an 80 percent interest (\$14.3 million) and Progress acquired a 20 percent interest in the assets (\$3.6 million).

OPERATING SUMMARY

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of crown and other royalties, unless otherwise indicated. ProEx's results of operations were dependent on production volumes of natural gas, crude oil and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather and general economic conditions and changes in the Canadian/United States currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl 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.

Production

The following is a summary of daily production for the quarterly and annual periods indicated:

	2008					2007				
	Annual	Q4	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Natural gas (mcf/d)	60,416	63,105	62,204	58,426	57,880	46,838	52,917	48,082	49,530	36,631
Crude oil (bbls/d)	451	433	461	405	506	457	590	438	414	384
Natural gas liquids (bbls/d)	311	304	294	307	341	245	270	225	239	246
Total production (boe/d)	10,832	11,255	11,122	10,449	10,493	8,509	9,680	8,677	8,909	6,735
Sulphur sales (tons/d)	44	39	42	60	37	50	75	37	56	34

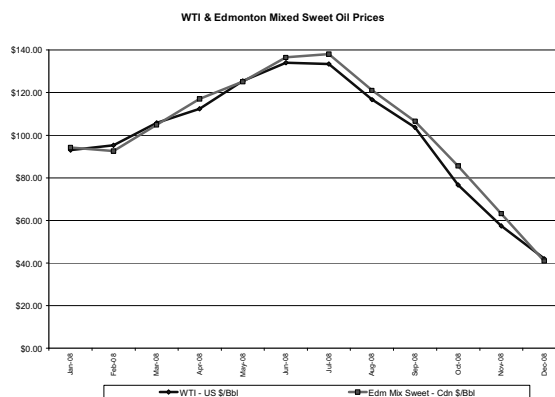
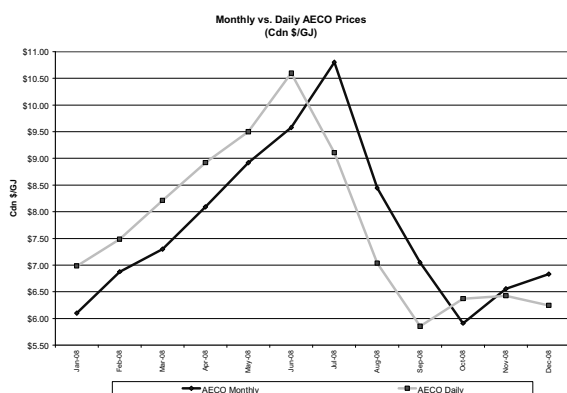
ProEx's production for the year ended December 31, 2008 averaged 10,832 boe per day. The production was comprised of 451 bbls per day of crude oil, 311 bbls per day of natural gas liquids and 60,416 mcf per day of natural gas. Production increased 27 percent over the 8,509 boe per day recorded in the prior year due to successful drilling in the Foothills of British Columbia, specifically in the areas of Julienne and Green. Production was negatively impacted by a 22-day scheduled plant turnaround of the Spectra-owned McMahon gas processing facility in June 2008, as well as, additional unscheduled plant and gathering system downtime at third-party facilities throughout the year. Extreme cold weather in the fourth quarter resulted in downtime across all operations, and a delay for completions and tie in activities.

Producing Areas

The following table summarizes the Company's average production by producing areas for the years ended December 31, 2008 and 2007:

(boe/d)	2008	2007
Julienne	2,380	1,140
Green/Caribou	1,881	805
West Beg	1,487	2,211
Gundy and Town	1,214	1,403
Bubbles	1,186	835
Dogrib/Sasquatch	1,107	562
Altare/Bernadet	820	901
Fort St. John Plains	545	626
Blair	212	26
Total daily production	10,832	8,509

Commodity Pricing



Natural Gas Markets

ProEx's realized natural gas price for the year ended December 31, 2008 was \$8.40 per mcf (2007 - \$6.63 per mcf) compared to the Canadian Alberta Energy Company interconnect with the TransCanada Alberta system ("AECO") daily index average of \$8.21 per gigajoule ("gj") and the AECO monthly index average of \$8.20 per gj (2007 - \$6.51 per gj and \$6.67 per gj, respectively). ProEx marketed its natural gas at a mix of daily and monthly pricing.

The first quarter of 2008 proved to be amongst the coldest of the past 5 to 10 years through many regions of North America which created significant natural gas demand for heating and power generation. This demand required strong withdrawals from natural gas storage facilities which at one point set a new record high one week draw-down. The resulting demand caused winter to end with United States ("US") natural gas storage depleted down to approximately equal the five year average exit rate of 1.248 trillion cubic feet. The second quarter saw the continued rise in North American natural gas prices as gas trading on the New York Mercantile Exchange ("NYMEX") ultimately hit a record high of US\$13.58 per one million British thermal units ("mmbtu") on July 3rd and AECO gas in Alberta peaked at \$11.15 per gj on July 1st. Supportive fundamentals of these prices included: soaring prices for competing fuels as West Texas Intermediate ("WTI") crude oil moved to unprecedented levels; lower North American receipts of liquefied natural gas ("LNG") imports due to strong Asian and European demand; lower Canadian production; an extended outage at the Independence Hub natural gas processing facility in the Gulf of Mexico; and, a growing year-over-year natural gas storage deficit. The second half of 2008 was dominated by a complete reversal of nearly all of the fundamentals which had driven the rise in natural gas prices through the first six months. These fundamentals included: a significant slide in crude oil and competing fuel prices; strong natural gas production growth in the United States; an absence of weather related demand; surprisingly large incremental storage injections when storage was already perceived to be more than adequately supplied; and, shrinking industrial demand as a result of the growing worldwide economic crisis. Natural gas prices finished the year at a low with the NYMEX and AECO down by approximately 40 percent to US\$5.62 per mmbtu and 12 percent to \$6.25 per gj, respectively.

Oil Markets

ProEx's realized prices for its liquids streams for the year ended December 31, 2008 were \$96.01 per bbl (2007 - \$74.80 per bbl) for crude oil and \$84.97 per bbl (2007 - \$68.49 per bbl) for natural gas liquids.

Crude oil prices continued to increase during the first half of 2008 as strong demand growth in China and India coupled with limited supply and low inventories for both crude oil and refined products. Throughout the year, geo-political events in the Middle East and Africa added significant volatility to the market as security of supply proved to be a significant price driver. All of this upward pricing pressure climaxed on July 3rd when the WTI prompt month crude oil price settled at a new all-time high of US\$145.29 per bbl. Very shortly thereafter, oil prices began to fall significantly as global demand destruction became apparent. The international credit crisis continued to grow along with fears of a global recession while key economic indicators reported through the second half of the year were increasingly bearish and oil demand forecasts were continually revised downward. The magnitude of the lost demand for oil was highlighted through the fourth quarter as significant growth of oil and refined product inventories continued in spite of numerous global supply disruptions and dropping refinery utilization. Crude oil prices concluded 2008 with WTI trading at US\$44.60 per bbl for a net decline of US\$55.02 per bbl from the US\$99.62 per bbl where it had traded a year earlier.

<i>Average Benchmark Prices</i>	2008	2007
Natural gas – Station #2 (Cdn \$/mcf daily index)	8.10	6.44
Natural gas – AECO (Cdn \$/mcf daily index)	8.21	6.51
Natural gas – AECO (Cdn \$/mcf monthly index)	8.20	6.67
Exchange rate (US\$/Cdn\$)	1.0671	1.0740
<i>ProEx Realized Prices</i>		
Natural gas (\$/mcf)	8.40	6.63
Crude oil (\$/bbl)	96.01	74.80
Natural gas liquids (\$/bbl)	84.97	68.49
Sulphur – net (\$/ton)	308.32	7.62

Natural Gas Pricing

The US natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana while Alberta natural gas is referenced off the AECO Hub and British Columbia natural gas off of Sumas Washington or Station #2 market centers. Virtually all of ProEx's natural gas was sold at pricing based at one of the Alberta or British Columbia hubs. ProEx typically sold 50 percent of its natural gas production on monthly indexes and 50 percent on daily indexes.

<i>British Columbia Natural Gas Prices</i>	2008	2007
NYMEX (US \$/mmbtu 12 month average – last 3 Days)	8.95	6.91
Less: Station #2 basis differential to Henry Hub (US \$/mmbtu)	(1.47)	(1.00)
Station #2 (US \$/mmbtu)	7.48	5.91
Average exchange rate	1.0671	1.0740
Station #2 price (Cdn \$/mcf daily index) ⁽¹⁾	8.10	6.44
Premium: ProEx realized price vs spot	0.30	0.19
ProEx average British Columbia field price (Cdn \$/mcf)	8.40	6.63

(1) Converted from \$/mmbtu to \$/mcf using the Energy and Utilities Board conversion factor.

Risk Management

During 2008, the Company entered into natural gas financial contracts for the purpose of protecting its cash flow from the volatility of natural gas prices or to shift its sales to different markets such as NYMEX versus AECO. For the year ended December 31, 2008 the Company's natural gas price risk management program had a net realized loss of \$3.8 million (2007 – gain of \$7.9 million).

On January 1, 2007, the Company adopted the new accounting standards regarding the accounting for financial instruments. In addition to the adoption of the new standards, Management elected not to use hedge accounting and consequently recorded the fair value of its natural gas financial contracts at each reporting period with the change in the fair value being classified as unrealized gains and losses in the statement of earnings.

As a result, for the year ended December 31, 2007, \$4.9 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$7.4 million, and a charge to future income tax expense of \$2.5 million. The unrealized gain of \$7.4 million was offset by the change in fair value on the natural gas derivative contracts from January 1, 2007 of \$7.4 million resulting in an unrealized gain of nil for 2007.

At December 31, 2008 the fair value of the natural gas financial contracts was an asset of \$6.0 million.

The Company's financial derivative trading activities were conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors. The Risk Management Policy had the objectives of reducing risk exposure to budgeted annual cash flow from operations projections resulting from uncertainty or changes in commodity prices, interest rates or foreign exchange; limiting financial contract volumes up to a maximum of 50 percent of forecasted production, net of royalties (or higher subject to Board of Directors approval); and limiting financial derivative trading activity to counter-parties that provided sufficient collateral in support of payment or had investment grade credit ratings.

Petroleum and Natural Gas Revenues

Petroleum and natural gas revenues for 2008 were \$216.3 million, up 64 percent over the \$132.2 million in revenues for 2007. Revenues consisted of \$185.8 million in natural gas sales (2007 - \$113.4 million), \$15.9 million in crude oil sales (2007 - \$12.5 million) and \$9.7 million in natural gas liquids sales (2007 - \$6.1 million). Increased petroleum and natural gas revenues over the prior year are the result of an increase natural gas prices by 28 percent and successful drilling during 2008 causing production to increase by 27 percent.

<i>(\$ thousands)</i>	2008	2007
<i>Revenues by product</i>		
Natural gas	185,812	113,411
Crude oil	15,852	12,483
Natural gas liquids	9,680	6,126
Sulphur sales (net)	5,003	140
Total petroleum and natural gas revenues	216,347	132,160

<i>(\$ thousands)</i>	Natural Gas	CrudeOil & NGLs	Sulphur	Total
2007 Petroleum and natural gas revenue	113,411	18,609	140	132,160
Price variance	39,122	5,279	4,880	49,281
Production variance	33,279	1,644	(17)	34,906
2008 Petroleum and natural gas revenue	185,812	25,532	5,003	216,347

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Royalties increased 56 percent to \$46.1 million in 2008 from \$29.5 million in 2007 due to higher revenues, as a result of higher production. ProEx's average royalty rate in 2008 was 21.3 percent compared to 22.4 percent in 2007. The decrease in the royalty rate was due to lower royalty rates on the properties acquired in the asset acquisition in April 2007, which also included wells in which ProEx previously paid gross overriding royalties.

<i>(\$ thousands, except where otherwise indicated)</i>	2008	2007
Crown	41,668	25,250
Freehold and overriding	4,391	4,296
Total royalty expense	46,059	29,546
Royalties (\$/boe)	11.62	9.51
Average royalty rate (%)	21.3	22.4

The following table provides a break down of royalties by product:

<i>(\$ thousands, except where otherwise indicated)</i>	2008	2007
Natural gas royalties	40,067	25,927
\$/boe	10.87	9.10
Average natural gas royalty rate (%)	21.6	22.8
Natural gas liquids royalties	2,359	1,328
\$/boe	20.72	14.85
Average natural gas liquids royalty rate (%)	24.4	21.7
Crude oil royalties	2,794	2,291
\$/boe	16.93	13.73
Average crude oil royalty rate (%)	17.6	18.4

Operating Expenses

Operating expenses for 2008 were \$24.3 million compared to \$15.8 million for 2007. On a per boe basis, operating expenses for 2008 increased 21 percent to \$6.14 from \$5.09 in 2007. Higher per boe costs in 2008 were partially due to the additional fluid treatment and handling costs as a result of the increased production in the Caribou area, where access to water injection wells are limited. The planned plant turnaround at the Spectra owned McMahon gas processing facility in June also attributed to the increase as 22 days of production were lost, and additional repair and maintenance work was performed on the Company's facilities to coincide with the turnaround.

<i>(\$ thousands, except where otherwise indicated)</i>	2008	2007
Operating expenses - natural gas properties	22,859	14,578
\$/boe	6.02	4.97
Operating expenses – crude oil properties	1,492	1,241
\$/boe	9.03	7.25
Operating expenses – all properties	24,351	15,819
\$/boe	6.14	5.09

Transportation Expenses

Transportation expenses were \$17.9 million for 2008 compared to \$12.7 million for 2007. The increase was due to increased production in 2008. On a per boe basis, transportation expenses were \$4.52 in 2008 compared to \$4.10 in 2007. Higher per boe costs in 2008 was due to an increase in production processed through the Keyera-owned Caribou gas plant, which has higher transportation and treatment tolls. In British Columbia, there is an infrastructure owned by Spectra Energy that enables gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

Operating Netbacks by Product

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas, crude oil and all properties combined for the year and for the prior year.

	2008	2007
<i>Natural gas properties (\$/mcf)</i>		
Sales price	8.68	6.88
Realized gain (loss) on financial instruments	(0.17)	0.45
Royalties	(1.87)	(1.58)
Transportation expenses	(0.77)	(0.70)
Operating expenses	(1.01)	(0.83)
Operating netback – natural gas properties	4.86	4.22
<i>Crude oil properties (\$/bbl)</i>		
Sales price	79.78	64.37
Royalties	(15.90)	(9.82)
Transportation expenses	(1.80)	(1.87)
Operating expenses	(8.48)	(7.25)
Operating netback – oil properties	53.60	45.43
<i>All properties (\$/boe)</i>		
Sales price ⁽¹⁾	54.57	42.55
Realized gain (loss) on financial instruments	(0.96)	2.56
Royalties	(11.62)	(9.51)
Transportation expenses	(4.52)	(4.10)
Operating expenses	(6.14)	(5.09)
Operating netback – all properties	31.33	26.41

(1) Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

General and Administrative Expenses

For 2008, general and administrative expenses (“G&A”), net of operator recoveries and capitalized expenses were \$4.9 million (\$1.23 per boe) compared to \$2.9 million (\$0.93 per boe) in the prior year. The Company incurred higher technical service fees from Progress as compared to the prior year due to the Company’s increased activity levels and production volumes during the year. The Trust provided these services to ProEx on an expense reimbursement basis, based on ProEx’s monthly capital activity and production levels relative to the combined capital activity and production levels of both the Trust and ProEx (computed in accordance to the Technical Services Agreement – see “Relationship with Progress”). Higher gross G&A was partially offset by higher recoveries due to an increase in drilling activity.

<i>(\$ thousands)</i>	2008	2007
Direct expenses	840	1,852
Technical services fee from Progress	8,861	5,368
Gross G&A	9,701	7,220
Operator recoveries	(3,750)	(3,048)
Capitalized expenses	(1,068)	(1,281)
Total G&A	4,883	2,891
Total G&A (\$/boe)	1.23	0.93

Interest and Financing Expense

Interest and financing charges for 2008 were \$6.3 million (\$1.60 per boe) compared to \$4.2 million (\$1.36 per boe) for 2007. The increase in interest and financing charges for the year as compared to the prior year, was a result of higher average debt levels to finance the capital expenditures incurred during the year. Details of ProEx's bank debt are described in the "Capitalization and Capital Resources" section below and Note 5 in the audited financial statements.

Long Term Incentive Compensation Expense

For 2008, long term incentive compensation expense, relating to outstanding stock options, and the Progress LTI was \$4.1 million (\$1.04 per boe) compared to \$2.9 million (\$0.92 per boe) for 2007. The increase in compensation expense per boe over the prior year was primarily a result of the issuance of 1.2 million stock options mid-year in 2007, as well as 140,000 stock options granted in the second half of 2007 and the first half of 2008. At December 31, 2008 there were 1,674,867 options outstanding at a weighted average exercise price of \$12.86 (2007 – 1,933,501 options at a weighted average price of \$12.63).

The LTI was established during the second quarter of 2007 for the benefit of the non-executive Trust employees. ProEx agreed to contribute to the LTI to ensure that service providers retained incentives related to the success of ProEx. For the year ended December 31, 2008 182,056 common shares of ProEx had been granted to the Trust employees, in their capacity as service providers to ProEx, resulting in a total compensation cost of \$2.6 million. ProEx reimbursed the Trust for this expense, therefore the total amount has been recorded as a prepaid expense and \$2.3 million will be amortized through long term incentive compensation expense and \$0.3 million will be capitalized equally over the two year vesting period. Awards granted under the LTI vest on the second anniversary date of the date of grant. ProEx's long term incentive compensation plans are described in Note 7 in the audit financial statements.

Depletion, Depreciation and Accretion Expense

For 2008, depletion and depreciation of capital assets and the accretion of the asset retirement obligations ("DD&A") was \$61.8 million compared to \$47.5 million for 2007. The increase in DD&A was primarily due to higher production and a larger capital asset balance partially offset by reserve additions. On a boe basis, DD&A expense for 2008 was \$15.58 compared to \$15.29 for 2007.

<i>(\$ thousands)</i>	2008	2007
Depletion	61,277	47,034
Depreciation	2	3
Accretion	506	432
Total DD&A expense	61,785	47,469
DD&A (\$/boe)	15.58	15.29
Depletion and depreciation rate (%)	9.8	11.0

Future Income Taxes

Future income tax expense for 2008 was \$14.0 million (26.3 percent effective rate) compared to \$4.5 million (18.3 percent effective rate) for 2007. The higher taxes in 2008 was a result of higher pre-tax earnings, offset slightly by a recovery of \$3.0 million relating to a reduction in future federal and provincial income tax rates enacted during the year. The Company had approximately \$520.1 million (2007 - \$444.4 million) of federal tax pools to shelter taxable income as at December 31, 2008.

Net Earnings and Comprehensive Income

Net earnings for 2008 of \$39.2 million was 95 percent higher than 2007 of \$20.1 million. The increase was due to higher revenues as a result of higher production and higher commodity prices in the year. Basic net earnings per share for 2008 was \$0.69 per share (2007 - \$0.42 per share), while diluted net earnings per share for the year was \$0.68 (2007 - \$0.38 per share).

Other comprehensive income for 2007 includes a charge of \$4.9 million for the amortization of the amount recognized in accumulated other comprehensive income on the adoption of the new accounting standards for financial instruments (see the "Risk Management" section above). There was no charge through other comprehensive income in 2008. This resulted in total comprehensive income for 2008 of \$39.2 million (2007 - \$15.1 million).

On a per boe basis, net income was \$9.88 per boe during the year compared to \$6.46 for 2007.

QUARTERLY FINANCIAL SUMMARY

The following table highlights ProEx's performance for the three month reporting periods from January 1, 2007 to December 31, 2008:

(\$ thousands, except per share amounts)	2008				2007			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Petroleum and natural gas sales	44,347	61,264	61,949	48,787	38,057	28,231	37,347	28,524
Net earnings	4,233	27,747	5,307	1,873	7,725	716	7,564	4,066
-Per share basic	0.07	0.48	0.09	0.04	0.15	0.01	0.16	0.10
-Per share diluted	0.07	0.48	0.09	0.03	0.14	0.01	0.14	0.09
Total assets	717,974	659,558	616,652	605,898	549,343	484,888	470,906	339,252
Bank debt and working capital deficiency	177,264	160,564	131,097	147,742	110,986	59,352	88,411	69,858

Lower petroleum and natural gas revenue and net earnings in 2007 was due to lower realized natural gas prices and lower average production as compared to 2008. The second and third quarters of 2008 experienced increases in realized natural gas prices which was reflected in the higher revenues. The dramatic increase in net earnings in the third quarter of 2008 is mainly due to the unrealized gain on the Company's financial instruments with the deterioration of gas prices at the end of the third quarter. Production increases in the fourth quarter of 2008 were offset by sharp declines in natural gas prices, which led to lower revenues and net earnings.

SELECTED ANNUAL INFORMATION

(\$ thousands, except per unit amounts)	2008	2007	2006
Petroleum and natural gas revenue	216,347	132,160	84,000
Net earnings	39,161	20,072	15,163
- Basic	1.97	0.42	0.43
- Diluted	1.93	0.38	0.36
Total assets	717,973	549,343	290,307
Working capital deficiency	17,264	14,105	2,035
Bank debt	160,000	96,881	25,803
Total Debt	177,264	110,986	27,838

COMMON SHARE INFORMATION

(thousands)	2008	2007
Weighted average outstanding common shares		
- Basic	56,348	47,326
- Diluted	57,693	52,702
Outstanding securities at December 31,		
- Common shares	59,702	52,528
- Common share options	1,675	1,934
- Common share warrants	-	4,765
- Diluted common shares outstanding	61,377	59,227
- Class B performance shares	-	551

INVESTMENT

Capital Investment

During 2008 the Company invested approximately \$211.9 million with the drilling of 61 gross wells (45.0 net) for a success rate of 95 percent (95 percent net). The following table summarizes the capital investments for 2008 and 2007.

(\$ thousands)	2008	2007
Land acquisitions and retention	26,279	6,266
Geological and geophysical	6,855	11,175
Drilling and completions	126,633	109,939
Equipping and facilities	43,213	22,787
Total exploration and development capital	202,980	150,167
Net property acquisitions	8,920	152,523
Total capital expenditures	211,900	302,690

Undeveloped Land

ProEx's undeveloped land at December 31, 2008 increased 23 percent to approximately 533,000 net acres. Approximately 515,000 net acres (97 percent) of the undeveloped lands are in the Foothills region of northeast British Columbia. Over the next twelve months, 11 percent of ProEx's net undeveloped acreage will be subject to expiry. With an active drilling program, the Company anticipates minimal undeveloped acres expiring in 2009.

	2008		2007	
	Gross	Net	Gross	Net
Foothills – British Columbia	782,000	515,000	663,000	409,000
Fort St. John Plains – British Columbia	86,000	18,000	112,000	24,000
Total undeveloped land	868,000	533,000	775,000	433,000

LIQUIDITY AND CAPITAL RESOURCES

The market value of the Company's common shares at December 31, 2008 was \$668.7 million compared to \$621.4 million in the prior year.

<i>(thousands except per share amounts)</i>	2008	2007
Common shares outstanding	59,702	52,528
Share price ⁽¹⁾	11.20	11.83
Total market capitalization	668,662	621,406
Working capital deficiency	17,264	14,105
Bank debt	160,000	96,881
Total debt	177,264	110,986
Cash Flow ⁽²⁾	111,067	73,808
Total debt to total cash flow	1.60	1.50

⁽¹⁾ Represents the closing price on the TSX on December 31.

⁽²⁾ Represents cash flow from operations before changes in non-cash working capital.

Bank Facility

At December 31, 2008 the Company had \$160.0 million outstanding on its \$225 million credit facilities and a working capital deficit of \$17.3 million, resulting in \$177.3 million of total debt. In the second quarter of 2008, the Company increased the credit facility borrowing base from \$185 million to \$215 million. The credit facility consisted of a \$215 million extendible revolving term credit facility and a \$10 million working capital credit facility with a syndicate of Canadian chartered banks. The facilities were available on a revolving basis for a period of at least 364 days until April 15, 2009, and such initial term out date could have been extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities would have been available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. The facility was a borrowing base facility that was determined based on, among other things, the Company's current reserve report, results of operations, current and forecasted commodity prices and the current economic environment.

Subsequent to year end, in conjunction with the Arrangement, a new \$650 million extendible revolving term credit facility was entered into for a period of at least 364 days until January 14, 2010, and such initial term out date may be extended for further 364 day periods, subject to approval by the banks. As with previous credit facilities, the amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility which may require a repayment to the lenders over the following 12 month period. The initial test for the new facility was performed in December 2008 using the reserves determined as at September 1, 2008 for the plan of arrangement and then current commodity prices determined by the lenders. The new facility is secured by a \$1.5 billion fixed and floating charge debenture on the assets of the new combined entity, Progress Energy Resources Corp. The next semi-annual borrowing base review will be in April 2009.

Working Capital

The capital intensive nature of the Company's activities may create a negative working capital position in years with high levels of capital investment. The working capital deficiency increased from \$14.1 million as at December 31, 2007 to \$17.3 million as at December 31, 2008 due to increased accounts payable as a result of increased capital expenditures for the fourth quarter of 2008 (\$69.3 million) compared to the fourth quarter of 2007 (\$60.0 million).

Substantially all of the Company's petroleum and natural gas production was marketed by Progress under standard industry terms and in accordance with the terms of the Technical Services Agreement. Accounts payable consist of amounts payable to suppliers, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period. At December 31, 2008 the Company had no material accounts receivable that it deemed uncollectible.

The Company actively manages its capital structure. The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore the Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted debt to forecasted cash flow from operations ratio while attempting to finance an acceptable investment program including incremental investment and acquisition opportunities; the current level of bank credit available from the bank syndicate; the level of bank credit that may be obtainable from its banking syndicate as a result of natural gas reserve growth; the availability of other sources of debt with different characteristics than the existing bank debt; the sale of assets; limiting the size of the investment program and new common equity if available on favorable terms.

Current Economic Conditions

Progress Energy Resources Corp. has continued to have access to both debt and equity markets in early 2009 in spite of the current economic conditions and financial market volatility. Subsequent to year end, in conjunction with the Arrangement, Progress Energy Resources Corp. entered into a new \$650 million extendible revolving term credit facility for a period of at least 364 days until January 14, 2010, and such initial term out date may be extended for further 364 day periods, subject to approval by the banks. This new facility was entered into based on reserves as at September 1, 2008 and based on January 2009 commodity price assumptions by the lenders.

Also subsequent to year end, on February 18, 2009, Progress Energy Resources Corp. issued 12,950,000 common shares at a price of \$10.85 per share for aggregate gross proceeds of \$140.5 million (\$133.9 million, net of issue costs of approximately \$6.6 million) under a bought deal public offering. The underwriters have an over-allotment option to purchase an additional 1,942,500 common shares on the same terms and conditions as the offering, exercisable at any time from the closing of the offering until 30 days thereafter. The proceeds of the offering were used to repay a portion of the outstanding bank indebtedness thereby freeing up borrowing capacity to fund a portion of the 2009 capital program.

Off-Balance Sheet Arrangements

ProEx had no guarantees or off-balance sheet arrangements except for certain lease agreements. ProEx had certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value had been assigned to these leases on the balance sheet as at December 31, 2008. The total future obligation from these operating leases is described below in the section "Contractual Obligations and Commitments".

Contractual Obligations and Commitments

ProEx contracted for firm transportation on the Spectra Energy system in British Columbia as well as transportation and processing services at other gas plants in northeast British Columbia.

As part of the Company's land capture strategy, it will commit to industry partners to drill wells, and or shoot seismic in order to earn positions in contiguous land blocks. As at December 31, 2008, ProEx had commitments to drill and complete two wells costing approximately \$3.0 million (net) in 2009 which will earn lands from area competitors in the Foothills region of northeast British Columbia. These commitments are scheduled in the Company's 2009 capital investment plans.

The Company must pay Crown royalties, surface rentals, mineral taxes and abandonment and reclamation costs with respect to its ongoing ownership of hydrocarbon production rights. The amount paid with respect to these burdens will depend on the future ownership, production, commodity prices and regulatory environment at the time.

In addition, the Company has entered into several derivative financial instruments under its commodity risk management program, the terms and commitments of which are disclosed in note 10 of the financial statement. The future premiums ProEx is committed to pay are included in the table below.

The Company's future contractual commitments are highlighted below.

<i>(\$ thousands)</i>	Total	2009	2010	2011	2012	2013
Bank debt ⁽¹⁾	160,000	-	160,000	-	-	-
Gas transmission and treatment	56,756	20,745	21,422	13,335	1,212	42
Drilling rig commitments	2,506	1,253	1,253	-	-	-
Operating leases	144	144	-	-	-	-
Farm-in commitments	3,000	3,000	-	-	-	-
Financial instrument premiums	1,253	1,253	-	-	-	-
Total contractual obligations	223,659	26,395	182,675	13,335	1,212	42

⁽¹⁾ Based on the existing terms of the new \$650 million revolving credit facility which is subject to renewal on or before January 14, 2010. If not extended, the facilities would be available on a non-revolving basis for a one-year term at which time the facilities would be due and payable

SELECTED QUARTERLY INFORMATION AND FOURTH QUARTER ANALYSIS

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Operational Results					
Production					
-Natural gas (mcf/d)	63,105	62,204	58,426	57,880	52,917
-Crude oil (bbls/d)	433	461	405	506	590
-Natural gas liquids (bbls/d)	304	294	307	341	270
-Total production (boe/d)	11,255	11,122	10,449	10,493	9,680
Pricing					
-Natural gas (\$/mcf)	6.98	8.96	9.92	7.84	6.43
-Crude oil (\$/bbl)	58.35	116.98	117.08	92.41	83.77
-Natural gas liquids (\$/bbl)	59.90	99.57	100.01	81.34	78.11
Selected Financial Results (\$ thousands, except per share amounts)					
Petroleum and natural gas revenue	44,347	61,264	61,949	48,787	38,057
Royalties	9,287	13,178	12,962	10,632	7,031
Realized gain (loss) on financial instruments	3,987	(4,465)	(3,345)	-	1,257
Operating expenses	6,940	6,542	5,538	5,330	4,511
Transportation expenses	4,765	4,678	4,777	3,700	3,615
General and administrative expenses	1,203	1,149	1,297	1,235	478
Interest and financing expenses	1,616	1,667	1,664	1,381	1,227
Depletion, depreciation and accretion expense	16,596	16,074	14,673	14,442	13,339
Net earnings	4,233	27,747	5,307	1,873	7,725
-Basic per share	0.07	0.48	0.09	0.04	0.15
-Diluted per share	0.07	0.48	0.09	0.03	0.14
Capital Spending					
-Exploration and development	67,351	58,678	12,191	64,760	59,340
-Net acquisitions and dispositions	1,956	-	6,964	-	14,680
Total capital expenditures	69,307	58,678	19,155	64,760	74,020
Bank debt and working capital deficiency (surplus)	177,264	160,564	131,098	147,741	110,986
Shareholders' equity	459,891	425,869	397,294	387,230	389,350
Common shares outstanding	59,702	57,852	57,847	53,951	52,528

Production

Production during the fourth quarter of 2008 (the "Quarter") of 11,255 boe per day was one percent higher than the third quarter of 2008 of 11,122 boe per day and 16 percent higher than the fourth quarter of 2007 of 9,680 boe per day. The increase in production over the fourth quarter of 2007 was due to a successful 2008 capital program.

Petroleum and Natural Gas Revenues

Petroleum and natural gas revenues for the Quarter decreased 28 percent to \$44.3 million compared to the third quarter of 2008 of \$61.3 million and increased 17 percent over the fourth quarter of 2007 of \$38.1 million. Contributing to the decrease over the third quarter of 2008 was the decrease in the realized natural gas price to \$6.98 per mcf in the Quarter compared to \$8.96 in the third quarter of 2008. The increase in revenues over the fourth quarter of 2007 was due to the increase in production.

Royalties

Royalties for the Quarter decreased 30 percent to \$9.3 million compared to the third quarter of 2008 of \$13.2 million and increased 32 percent over the fourth quarter of 2007 of \$7.0 million. The decrease from the third quarter of 2008 was due to the decrease in revenues. The average royalty rate decreased to 20.9 percent for the Quarter compared to 21.5 percent for the third quarter of 2008, but increased from 18.5 percent in the fourth quarter of 2007. The increase from the fourth quarter of 2007 was due to fewer royalty credits received during the Quarter.

Operating Expenses

Operating expenses for the Quarter increased six percent to \$6.9 million from \$6.5 million in the third quarter of 2008 due to additional costs associated with the extreme cold weather experienced in the Quarter. Operating expenses for the Quarter were 53 percent higher than the fourth quarter of 2007 of \$4.5 million due to increased production. On a boe basis, operating expenses in the Quarter increased to \$6.70 from the \$6.39 that was realized in the third quarter of 2008 and increased 32 percent over the fourth quarter of 2007 of \$5.07.

Transportation Expenses

Transportation expenses for the Quarter increased slightly to \$4.8 million (\$4.60 per boe) from \$4.7 million (\$4.57 per boe) in the third quarter of 2008. Transportation expenses for the Quarter were 33 percent higher than the fourth quarter of 2007 of \$3.6 million (\$4.06 per boe) on account of higher production, as well as higher transportation and treatment tolls associated with the production processed through the Keyera-owned Caribou gas plant. In British Columbia, Spectra Energy owns the infrastructure that enables gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

General and Administrative Expenses

For the Quarter, G&A expenses of \$1.2 million was consistent with the third quarter of 2008 with \$1.1 million. G&A expenses for the Quarter were 152 percent higher than the fourth quarter of 2007 of \$0.5 million due to higher technical service fees from Progress as a result of the increased activity and production levels partially offset by higher recoveries and capitalized expenses. On a per boe basis, G&A expenses for the Quarter of \$1.16 increased 4 percent from the third quarter of 2008 of \$1.12, consistent with change in total G&A. On a per boe basis, G&A expenses for the Quarter increased 115 percent from the fourth quarter of 2007 of \$0.54 due to the increase in total G&A exceeding the increase in production.

	Q4 2008	Q3 2008	Q4 2007
<i>(\$ thousands)</i>			
Direct expenses	277	234	422
Technical services fee from Progress	2,382	2,083	1,635
Gross G&A	2,659	2,317	2,057
Operator recoveries	(1,110)	(868)	(951)
Capitalized expenses	(346)	(300)	(628)
Total G&A	1,203	1,149	478
Total G&A (\$/boe)	1.16	1.12	0.54

Interest and Financing Expenses

Interest and financing expenses for the Quarter was \$1.6 million, consistent with the third quarter of 2008 of \$1.7 million and 32 percent higher than the fourth quarter of 2007 of \$1.2 million due to increased debt as a result of capital spending during 2008. On a boe basis, interest and financing expenses for the Quarter were \$1.56 compared to \$1.63 for the third quarter of 2008 and \$1.38 for the fourth quarter of 2007.

Depletion, Depreciation and Accretion

For the Quarter, DD&A expenses of \$16.6 million was consistent with the third quarter of 2008 of \$16.1 million and increased 25 percent from the fourth quarter of 2007 of \$13.3 million. On a boe basis, DD&A was \$16.03 for the Quarter compared to \$15.71 for the third quarter of 2008 and \$14.98 for the fourth quarter of 2007. The increase from the fourth quarter of 2007 was due to a large positive year end reserve adjustment in that year, partially due to the Asset Acquisition, resulting in a reduction to the depletion rate for that quarter.

Income taxes

Future income taxes were an expense of \$1.3 million for the Quarter compared to an expense of \$11.5 million for the third quarter of 2008 and a recovery of \$0.7 million for the fourth quarter of 2007. The difference from the third quarter of 2008 was due to lower pre-tax earnings mainly due to a large unrealized gain on financial instruments. The change over the fourth quarter of 2007 was due to a \$3.7 million recovery relating to the reduction in future federal income tax rates enacted in that quarter.

Net Earnings and Cash Flow

Net earnings for the Quarter decreased to \$4.2 million (\$0.07 per basic and diluted share) from \$27.7 million (\$0.48 per basic and diluted share) recognized in the third quarter of 2008. This was the result of the large unrealized gain recorded in the third quarter with the decrease in natural gas prices from the second quarter of 2008. Net earnings for the Quarter were 45 percent lower than the fourth quarter of 2007 of \$7.7 million (\$0.15 per basic share, \$0.14 per diluted share). The decrease was due to a \$3.7 million future income tax recovery relating the reduction in future federal income tax rates enacted in the fourth quarter of 2007.

Capital Investment

Exploration and development expenditures during the Quarter of \$69.3 million was 18 percent higher than the \$58.7 million spent in the third quarter of 2008 and 17 percent higher than the \$59.3 million spent in the fourth quarter of 2007. The increase in the Quarter was due to the timing of capital projects as ProEx typically conducts more drilling in the fourth quarter than in the third. The increase over the fourth quarter of 2007 is due to the increased size of the Company.

ENVIRONMENT, HEALTH AND SAFETY

ProEx placed a high priority on preserving the quality of its environment and protecting the health and safety of its employees, contractors and the public in communities in which it lives and works. ProEx actively participated in industry-recognized programs at the highest possible levels in an effort to support continuous improvement. In this regard, ProEx

- Maintained a Platinum membership in the Environment, Health and Safety Stewardship Program developed by the Canadian Association of Petroleum Producers. ProEx's participation requires its commitment to continuous improvement in its environment, health and safety management practices including sound planning and implementation, open communication, demonstrated performance and a thorough external audit of its activities every 3 years.
- Conducted a company wide EH&S Management Leadership training in 2008, Hazard Assessment Training for Operators and Supervisors and continues to develop its site specific work procedures and Social Responsibility policies.
- Took a lead role in the newly formed Enform NEBC Safety Committee
- Maintained an active site abandonment and reclamation program which resulted in 17 locations with Certificate of Reclamation ("COR") applications underway.
- Carried out Fugitive Emissions Infrared Surveys at two of its major compression facilities in 2008 and is moved forward with the development of a Fugitive Emissions Strategy.

ProEx continually worked to improve its health and safety performance through increased awareness in the field by frequently communicating safety responsibilities to its employees and contractors and by issuing and sharing safety information. Health and safety is increasingly more visible in the field and ProEx was becoming more active with contractor safety management through industry committee participation and the promotion of industry recognized best practices.

In 2008, ProEx's overall health and safety performance improved compared to 2007. There was no employee lost time incidents in 2008 or 2007. There were a total of seven recorded contractor injury incidents in 2008 compared to 14 contractor incidents in 2007. ProEx's contractors had two lost-time incidents in 2008 compared to six in 2007.

ProEx is committed to environmental stewardship and the health and safety of its employees, contractors and the general public in the communities in which it operates.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in accordance with Canadian GAAP requires Management to make judgments and estimates that affect the financial results of the Company. ProEx's Management reviews its estimates regularly, but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A summary of significant accounting policies are presented in Note 2 to the financial statements. The critical estimates are discussed below:

Petroleum and Natural Gas Reserves

All of ProEx's petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101 ("NI 51-101"). The evaluation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices.

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development capital is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development capital have a direct impact on depletion expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion expense.

Asset Retirement Obligations

The asset retirement obligation is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by ProEx is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's internal controls over financial reporting ("ICOFR") are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

Management has assessed the effectiveness of the Company's internal control over financial reporting as defined by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The assessment was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2008. No changes were made to the Company's internal control over financial reporting during the year-ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

It should be noted that while the Company's management including the Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that these controls 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.

CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRENOUNCEMENTS

Internal Control Reporting

In August 2008, Canadian Securities Administrators repealed and replaced multilateral instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings with a revised multilateral instrument 52-109 requiring the CEO and CFO to certify in the annual certificates that they have evaluated the effectiveness of ICOFR as of the end of the financial year and disclose in the annual MD&A their conclusions about the effectiveness of ICOFR. There is no requirement to obtain an internal control audit opinion from the issuer's auditors concerning management's assessment of the effectiveness of ICOFR. New to the revised multilateral instrument 52-109, was the requirement to use a control framework to design ICOFR. This amendment applies for periods ended after December 15, 2008.

Convergence with International Reporting Standards

On February 13, 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the effective date for the convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). The Corporation has begun assessing the impact of adopting IFRS and is implementing plans for transition. The project will be managed by an in-house team of accounting professionals who have attended and will continue to attend training session's specific to IFRS adoption. The Corporation's auditors will be involved throughout the process to ensure the Corporation's policies are in accordance with these new standards.

The IFRS team has identified the main conversion risks and will spend the majority of their time focused on these areas. One of these areas is the transition from the full cost method of accounting, which the Corporation currently uses to account for petroleum and natural gas operations, to something acceptable under IFRS. There are a variety of approaches available, each of which, the Corporation still has to evaluate. An Exposure Draft was released by the International Accounting Standards Board on September 25, 2008 regarding a proposed amendment to IFRS 1, First Time Adoption of International Reporting Standards. The amendment proposes that an entity that used full cost accounting under its previous GAAP may elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. The comment period was expected to close on January 23, 2009 for this Exposure Draft.

The majority of the work is scheduled for the spring and summer of 2009. The Corporation plans to have an opening January 1, 2010 balance sheet, which is in accordance with IFRS, meaning the project will be near completion in December 2009. The Corporation will maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. The following reviews the general and specific risks.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader US and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Exploration, Development & Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. ProEx's long-term commercial success depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves it may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in ProEx's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, ProEx may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by ProEx.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas release and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although ProEx maintains liability insurance, when available, in an amount that it considers consistent with industry practice, the nature of these

risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risk typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into production formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Finding Oil and gas exploration requires manpower and capital to generate and test exploration concepts. The eventual testing of a concept will not necessarily result in the discovery of economical reserves. ProEx attempts to minimize finding risk by ensuring that:

- The majority of prospects have multi-zone potential.
- Activity is focused in core regions where expertise and experience is greatest.
- Number of wells drilled is large enough to increase the probability of statistical success rates.
- Working interest are targeted at over 60 percent in new prospects.
- Geophysical techniques are utilized where appropriate.

Investment Risk Profile The Company's investment selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth (development activity) and future cash flow from the discovery or reserves (exploration). This careful prospect selection process can yield consistent and efficient results. The Company focuses its activity in two core regions, allowing it to leverage off its experience and knowledge in these areas further aiding efficiencies. The Company attempts to maintain a broad range of investment choices to limit the investment risk by continually investing a portion of its annual budget to future years. The Company attempts to use farm-outs to minimize risk on plays it considers higher risk.

Production Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. ProEx minimizes this risk by generating exploration prospects internally, targeting high quality projects and attempting to operate the associated project. Operational control allows the Company to control costs, timing, method and sales of production. Production risk is also minimized by concentrating exploration efforts in regions where facilities and infrastructure are ProEx owned, or the Company can control the future development of new facilities and infrastructure.

Reserve Estimates Economically recoverable oil and natural gas reserves (including natural gas liquids), estimated by the Company's independent engineering firm, GLJ Petroleum Consultants Ltd., and the future net cash flows there from are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected there from, may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Credit Facility Risk

The Corporation obtained a \$650 million syndicated credit facility with seven financial institutions, subsequent to December 31, 2008 in conjunction with the Arrangement. At the option of the Corporation, the lenders will review the new facility each year, the next being January 14, 2010 and determine if they will extend for a further 364 day period. An extension will only be granted for those lenders who approve the extension, and only if lenders holding two-thirds of the total commitment agree to extend. In the event that the new facility is not extended for a particular lender or lenders, then all indebtedness under the new facility owing to those non-extending lenders will be repayable one year later. The current review date is January 14, 2010 (making the current maturity date January 15, 2011 if no extension were to be granted by any lender). There is also a risk that the new facility will not be renewed for the same or on the same terms. Any of these events could affect the Corporation's ability to fund ongoing operations.

The new facility is a "borrowing base" facility, meaning that the amount of available credit is dependent in part on the reserves attributable to the Corporation's assets. A sustained material decline in prices of oil and natural gas could materially reduce the Corporation's borrowing base, thereby reducing the bank credit available to the Corporation and possibly causing a portion of such bank debt to be required to be repaid. The borrowing base is generally re-determined by the lenders semi-annually and upon the acquisition or disposition of assets beyond certain defined limits. The next semi-annual review will be in April 2009.

The new facility was obtained on January 15, 2009 in conjunction with the Arrangement and was based on recent reserves and commodity price information at the time.

Competitive Industry Conditions

The western Canadian oil and natural gas industry has become a very competitive industry for oil and gas properties, undeveloped land, drillable prospects and oil and natural gas industry professionals. The Company continues to develop its own exploration prospects, and through these efforts build a quality inventory of undeveloped lands and drillable prospects that can fuel future growth. The Corporation, post Arrangement, has a quality group of industry professionals to enable it to execute its business plan.

Supply of Service and Production Equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity these services and supplies can become difficult to obtain. The Corporation attempts to mitigate this risk by developing strong long term relationships with suppliers and contractors.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Corporation's ability to market its natural gas may depend upon our ability to acquire space on pipelines that deliver natural gas to commercial markets. We may also be affected by deliverability uncertainties related to the proximity of our reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government and regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of our net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of our reserves. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Corporation's net production revenue causing a reduction in its oil and gas acquisition, development and exploration activities. In addition, bank borrowings available to use are in part determined by our borrowing base. A sustained material decline in prices from historical average prices could reduce our borrowing base, therefore reducing the bank credit available to us which could require that a portion, or all, of our bank debt be repaid.

Demand for crude oil and natural gas produced by the Corporation exists within Canada and the US, however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. Demand for natural gas liquids is dictated predominately by demand for petrochemicals in North American and offshore markets. Progress Energy Resources Corp. mitigates the risks as follows:

- Crude oil production is of a high quality and hence not subject to adverse quality differentials.
- Natural gas is connected to mature pipeline infrastructure that operates with minimal interruptions.
- Exploration efforts target high quality oil and liquids rich natural gas reserves.
- Exploration efforts are concentrated in regions where marketing expertise levels are highest.
- Financial instruments are used, where appropriate, to manage commodity price volatility.

Risk Management

From time to time, ProEx may enter into agreements to receive fixed prices on our oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, we will not benefit from such increases. Similarly, from time to time, ProEx may enter into agreements to fix the exchange rate of Canadian to US dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the US dollar; however, if the Canadian dollar declines in value compared to the US dollar, we will not benefit from the fluctuating exchange rate.

ProEx has a Risk Management Policy, the objective of which is to ensure cash flow is sufficient to fund the capital program and cover debt payments by reducing the exposure to commodity prices, foreign exchange and interest rate volatility. These objectives may be achieved through the use of financial instruments or through fixed price contracts for the delivery of physical volumes. The program has established targets and guidelines as approved by the Board of Directors from time to time. Effective controls and procedures are in place to ensure that the mandate is followed.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". ProEx's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject ProEx to possible future legislation regulating emissions of greenhouse gases, such as the government of Canada's proposed *Clean Air Act* of 2006 and Alberta's recently enacted *Climate Change and Emissions Management Act*. The direct or indirect costs of these regulations may adversely affect the expected business of the ProEx.

Environmental and Safety Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require ProEx to incur costs to remedy such discharge. Although ProEx believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect ProEx's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet certain environmental targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of ProEx. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on ProEx and its operations and financial condition.

There are potential risks to the environment inherent in the business activities of the Company. ProEx has developed and implemented policies and procedures to mitigate environmental, health and safety (EH&S) risks. These policies and procedures include the corporate EH&S policy, emergency response plans, the corporate EH&S Management System, and other policies and procedures. These policies and procedures are designed to protect and maintain the environment, and public and employer safety, with respect to all corporate operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining its facilities, complying with all provincial and federal environmental and safety regulations. The Company has estimated future asset retirement obligations of \$6.8 million as at December 31, 2008. The Company recognizes period-to-period changes in the liability of the asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

Financial and Liquidity Risks – Additional Funding Requirements

The cash flow from operations from the Company's reserves may not be sufficient to fund its ongoing activities at all times. From time to time, ProEx may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. ProEx relies on various sources of funding to support its growing capital expenditure program, including:

- Internally generated cash flow from operations provides the minimum level of funding on which the Company's annual capital expenditures program is based.
- Debt may be utilized to expand capital programs when deemed appropriate.
- New equity, if available and on favorable terms, may be utilized to expand exploration programs and fund acquisitions.

Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If the revenues from the Company's reserves decrease as a result of lower oil and natural gas prices or otherwise, it will effect its ability to expend the necessary capital to replace its reserves or to maintain its production. If cash flow from operations are not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on acceptable terms. Neither its articles nor by-laws limit the amount of indebtedness that the Company may incur. The level of indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. In addition, cash flow is influenced by factors which the Company cannot control, such as commodity prices, the US/Cdn exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow from operations in

a detrimental way, ProEx would respond by increasing debt to within the Company's self-imposed debt guideline and/or reducing capital expenditures.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat our claim which could result in a reduction of the revenue received.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in its becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although prior to drilling ProEx will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, ProEx may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the cash flow from operations. The occurrence of a significant event that ProEx is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position, results of operations or prospects.

Conflicts of Interest

Certain directors are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Alberta Business Corporations Act.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of Canada. The Company is not aware that any claims have been made in respect of its property or assets. However, if a claim arose and was successful this could have an adverse effect on the Company and its operations.

Reliance on Key Personnel

The competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of our business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of management.

ADDITIONAL INFORMATION

Additional information regarding Progress Energy Resources Corp. and its business and operations, including the annual information form ("AIF") is available on the Corporation's profile at www.sedar.com. Copies of the AIF can also be obtained by contacting the Corporation at Progress Energy Resources Corp. 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at ir@progressenergy.com. This information is also accessible on the Corporation's web site at www.progressenergy.com

AUDITORS' REPORT TO THE SHAREHOLDERS

ProEx Energy Ltd.

We have audited the balance sheets of ProEx Energy Ltd., as at December 31, 2008 and 2007 and the statements of earnings, comprehensive income and retained earnings, and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P", extending across the width of the signature.

Chartered Accountants

Calgary, Canada

February 24, 2009

PROEX ENERGY LTD.
BALANCE SHEETS

<i>As at December 31 (\$ thousands)</i>	2008	2007
ASSETS		
Current		
Cash and short-term investments	8,211	-
Accounts receivable	24,301	20,091
Prepaid expenses and deposits	1,704	3,473
Fair value of financial instruments (Note 10)	6,040	-
	40,256	23,564
Property, plant and equipment (Note 4)	677,717	525,779
	717,973	549,343
LIABILITIES		
Current		
Accounts payable and accrued liabilities	51,480	37,669
Future income taxes	1,782	-
	53,262	37,669
Bank debt (Note 5)	160,000	96,881
Asset retirement obligations (Note 6)	6,774	5,691
Future income taxes (Note 8)	38,046	19,752
	258,082	159,993
SHAREHOLDERS' EQUITY		
Share capital and warrants (Note 7)	363,611	333,861
Contributed surplus (Note 7)	5,152	3,522
Retained earnings	91,128	51,967
	459,891	389,350
Commitments (Note 11)		
Subsequent events (Note 1)		
	717,973	549,343

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors of Progress Energy Resources Corp.

(signed) "David D. Johnson"
 Director

(signed) "Donald F. Archibald"
 Director

PROEX ENERGY LTD.
STATEMENTS OF NET EARNINGS, COMPREHENSIVE INCOME
AND RETAINED EARNINGS

<i>Year ended December 31 (\$ thousands, except per share amounts)</i>	2008	2007
REVENUES		
Petroleum and natural gas	216,347	132,160
Royalties	(46,059)	(29,546)
	170,288	102,614
Realized gain (loss) on financial instruments (Note 10)	(3,823)	7,936
Unrealized gain on financial instruments (Note 10)	6,040	-
	172,505	110,550
EXPENSES		
Operating	24,351	15,819
Transportation	17,919	12,732
General and administrative	4,883	2,891
Long term incentive compensation (Note 7)	4,109	2,861
Interest and financing	6,329	4,212
Depletion, depreciation and accretion	61,785	47,469
	119,376	85,984
Net earnings before taxes	53,129	24,566
INCOME TAXES		
Future income tax expense (Note 8)	13,968	4,494
NET EARNINGS	39,161	20,072
OTHER COMPREHENSIVE INCOME		
Amortization of fair value of financial instruments (Note 7)	-	(4,947)
COMPREHENSIVE INCOME	39,161	15,125
Retained earnings, beginning of year	51,967	31,895
Retained earnings, end of year	91,128	51,967
Net earnings per share (Note 7)		
Basic	\$0.69	\$0.42
Diluted	\$0.68	\$0.38

See accompanying notes to the financial statements

PROEX ENERGY LTD.
STATEMENTS OF CASH FLOWS

<i>Year ended December 31 (\$ thousands)</i>	2008	2007
Cash provided by (used in)		
OPERATING		
Net earnings	39,161	20,072
Depletion, depreciation and accretion	61,785	47,469
Unrealized loss (gain) on financial instruments	(6,040)	-
Long term incentive compensation (Note 7)	2,933	2,114
Asset retirement expenditures (Note 6)	(740)	(341)
Future income taxes	13,968	4,494
	111,067	73,808
Change in non-cash working capital (Note 9)	3,686	1,592
	114,753	75,400
FINANCING		
Increase in bank debt	63,119	71,078
Issue of shares (net of share issue costs) (Note 7)	34,555	145,735
Change in non-cash working capital (Note 9)	-	(79)
	97,674	216,734
INVESTING		
Asset acquisition (Note 3)	-	(150,731)
Capital expenditures	(211,900)	(151,959)
Change in non-cash working capital (Note 9)	7,684	10,556
	(204,216)	(292,134)
Change in cash and short-term investments	8,211	-
Cash and short-term investments, beginning of year	-	-
Cash and short-term investments, end of year	8,211	-

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

ProEx Energy Ltd.

December 31, 2008

1. SUBSEQUENT EVENTS

Plan of Arrangement

On January 15, 2009, ProEx Energy Ltd. (“ProEx” or the “Company”) and Progress Energy Trust (“Progress” or the “Trust”) completed the plan of arrangement (the “Arrangement”) dated December 15, 2008 whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust’s subsidiary, Progress Energy Ltd and changed its name to Progress Energy Resources Corp. (the “Corporation”). The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and Progress Energy Resources Corp. received all of the assets and assumed all of the liabilities of the Trust. Progress Energy Resources Corp. is now a mid-sized natural gas focused exploration, development and production company.

As a result of the Arrangement, the former owners of the Trust own approximately 61 percent of the Corporation and the former owners of ProEx own approximately 39 percent. In accordance with Canadian generally accepted accounting principles, the Arrangement will be accounted for as a reverse takeover, whereby the Trust will be deemed the acquirer of ProEx. Consequently, comparative amounts in future financial statements will reflect the history of the Trust. The total consideration of the reverse takeover is approximately \$663.3 million based on the notional issuance of 73,479,481 Trust Units at \$9.26 per Trust Unit based on the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effects of normal issue costs and estimated transaction costs of \$10.1 million. The net assets acquired and consideration paid based on amounts known at December 31, 2008 were as follows:

Net assets at assigned values (\$ thousands)	
Current assets	40,256
Current liabilities	(55,980)
	(15,724)
Property, plant and equipment	963,611
Bank debt	(160,000)
Future income taxes	(117,782)
Asset retirement obligations	(6,774)
	663,331
Consideration	
Common shares issued	653,203
Transaction costs	6,000
Transfer of ProEx options to the Corporation	4,128
	663,331

As described in note 5, Progress Energy Resources Corp. obtained a new \$650 million credit facility which is available on a revolving basis for at least 364 days until January 14, 2010 and such initial term out date may be extended for further 364 day periods, subject to approval by the banks.

Share offering

On February 18, 2009, the Corporation issued 12,950,00 common shares at a price of \$10.85 per share for aggregate gross proceeds of \$140.5 million (\$133.9 million, net of issue costs of approximately \$6.6 million.) The underwriters have an over-allotment option to purchase an additional 1,942,500 common shares on the same terms and conditions as the offering, exercisable at any time from the closing of the offering until 30 days thereafter.

2. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

ProEx was incorporated on April 8, 2004 and commenced commercial operations on July 2, 2004 under a plan of arrangement. Under the plan of arrangement various assets of Progress were transferred to ProEx.

ProEx was involved in the exploration, development and production of petroleum and natural gas in British Columbia. The financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

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

Joint Operations

Substantially all of the exploration, development and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas property, plant and equipment and the provision for asset retirement obligations are based on estimates. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Cash and Short-Term Investments

Cash and short-term investments consist of cash in the bank, less outstanding cheques and short-term deposits with a maturity of less than three months.

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

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

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss would be recorded.

Depletion and Depreciation

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas on a company interest basis (working interest plus royalty interest) before the deduction of crown and other royalties as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on a relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. Actual costs incurred upon settlement of the obligations are charged against the liability. No gains or losses on retirement activities were realized due to settlements approximating the estimates.

Financial Instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. The Company may enter into crude oil and natural gas swap contracts, options or collars to hedge its exposure to petroleum and natural gas commodity prices and may enter into foreign exchange forward contracts to hedge anticipated United States (“US”) dollar denominated petroleum and natural gas sales. The derivative financial instruments are initiated within the guidelines of the Company’s risk management policy and the Company does not enter into derivative financial instruments for trading or speculative purposes.

On January 1, 2007 ProEx adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. In conjunction with the adoption of these new standards, the Company elected not to use hedge accounting for its natural gas derivative contracts under its risk management program. The fair value of the commodity contracts is recognized at each reporting period with the change in the fair value being classified as an unrealized gain or loss on the statement of earnings.

For the year ended December 31, 2007 the Company adopted the disclosures required under 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 10.

Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

Income Taxes

The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The benefit of any uncertain tax benefits, if any, are only recognized if it is probable that they would be realized.

Flow-through shares

The Company issues flow-through shares from time to time to finance a portion of its exploration and development activities. Pursuant to the terms of these issues, the tax benefits associated with the resource expenditures will be renounced to the shareholders in accordance with income tax legislation. To recognize the renunciation of the tax benefits, the future tax liability is increased and share capital is reduced by the estimated amount of the tax benefits renounced to the shareholders at the time the related expenditures are renounced.

Stock Based Compensation

The Company has established a long term incentive compensation plan for directors and officers of ProEx and Progress employees in their capacity as service providers. The Company follows the fair value method for valuing stock option grants and Class B Performance Share issues. Under this method, the compensation cost attributable to stock options granted and Class B Performance Shares issued is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options and conversion of Class B Performance Shares, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company has not incorporated an estimated forfeiture rate for stock options, and Class B Performance Shares that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Commencing in the third quarter of 2008, the Company approved the issuance of Stock Appreciation Right’s (“SARs”) to certain employees. SARs entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of the Company’s common shares on the date of surrender and is accounted for based on the

intrinsic value at each period. A liability and expense are recorded over the vesting period in the amount by which the market price exceeds the exercise price of the SARs.

ProEx participated in the long term incentive component (“LTI”) of Progress’ long term incentive plan for non-executive Progress employees in their capacity as service providers. Under the terms of the LTI, Progress employees were granted LTI awards to be paid in common shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. The LTI awards vest on the second anniversary date of the date of grant. ProEx agreed to reimburse Progress for this expense and any amount paid is amortized through long term incentive compensation expense over the vesting period. The details of the LTI is described in note 7.

3. RELATIONSHIP WITH PROGRESS ENERGY TRUST

ProEx was created as part of a plan of arrangement effective July 2, 2004 which included the creation of Progress. Prior to the Arrangement completed January 15, 2009, ProEx had no ownership interest in Progress and Progress had no ownership interest in ProEx. Progress provided personnel and services to ProEx under a technical services agreement (“Technical Service Agreement”). The Technical Services Agreement was put in place to ensure the sharing of costs of operating both companies using Progress employees. ProEx had no employees. Progress provided personnel and certain administrative and technical services to ProEx in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. Progress provided these services in accordance with the Technical Services Agreement entered into with ProEx as described below.

ProEx and Progress also shared the cost of long-term compensation and consequently ProEx granted performance shares and stock options to Progress executives and employees and common shares under Progress’ LTI to non-executive employees of Progress in their capacity as service providers. Progress provided these services to ProEx on an expense reimbursement basis, based on ProEx’s monthly capital activity and production levels relative to the combined capital activity and production levels of both Progress and ProEx. As at December 31, 2008, accounts receivable included \$2.6 million (2007 – \$1.0 million) receivable from Progress which includes standard joint venture amounts.

On April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress (the “Asset Acquisition”). ProEx’s total consideration, including transaction costs of \$0.9 million was \$136.4 million. When considering the bid process for the Asset Acquisition, each of Progress and ProEx identified assets that they were interested in acquiring and values that they were willing to pay to acquire such assets. Progress made a single bid on behalf of ProEx and Progress and the ultimate purchase was based on the prices that each of Progress and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets from Progress to ProEx was based on these allocations. The technical services committee reviewed the details of the transaction prior to the purchase and sale agreement being signed. All lands are managed in accordance with the Protocol Arrangement.

Under the terms of Progress’ LTI, Progress employees in their capacity as service providers, were granted LTI awards to be paid in common shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. Awards granted under the LTI vest on the second anniversary date of the date of grant. ProEx has agreed to reimburse Progress for this expense. Refer to note 7 for details of the long term incentive compensation plan.

Subsequent to December 31, 2008, Progress and ProEx completed an Arrangement that resulted in ProEx acquiring all of the issued and outstanding units of Progress and the exchangeable shares of Progress Energy Ltd. Refer to note 1 for details of the Arrangement.

4. PROPERTY, PLANT AND EQUIPMENT

<i>(\$ thousands)</i>	2008	2007
Petroleum and natural gas properties	820,610	607,392
Accumulated depletion, depreciation	(142,893)	(81,613)
Property, plant and equipment	677,717	525,779

As described in note 3, on April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress. ProEx’s total consideration, including transaction costs of \$0.9 million was \$136.4 million. The full purchase cost of the Asset Acquisition was recorded to property, plant and equipment (including unproved property value of \$16.0 million which is excluded from the calculation of depletion and depreciation), and in addition, the Company recorded an asset retirement obligation on the acquired assets of \$1.9 million. The Asset Acquisition was financed through an equity offering of 8,050,000 common shares of the Company at a price of \$12.45 per share for aggregate gross proceeds of \$100.2 million (\$95.6 million net of issue costs). The remainder of the purchase price was financed through bank debt.

On November 30, 2007 ProEx acquired certain assets in the Blair and Cameron areas of the Foothills region for \$14.3 million.

During the year ended December 31, 2008, the Company capitalized \$1.1 million of general and administrative expenses (2007 - \$1.3 million) related to exploration and development activities. The calculation of 2008 depletion and depreciation included an estimated \$109.9 million (2007 - \$82.1 million) for future development capital associated with proven undeveloped reserves and excluded \$88.2 million (2007 - \$78.1 million) for the estimated value of unproved properties and \$10.7 million (2007 - \$3.5 million) for the estimated future net realizable value of production equipment and facilities. Depletion and depreciation expense for the year ended December 31, 2008 was \$61.3 million (2007 - \$47.0 million).

The Company performed a ceiling test calculation at December 31, 2008 resulting in the undiscounted cash flows from proved reserves and the lower of cost and market of unproved properties exceeding the carrying value of oil and gas assets. The prices used in the ceiling test evaluation of the Company's oil and gas assets is summarized in the following chart:

	Crude Oil		Natural Gas
	West Texas Intermediate (Cdn\$/bbl) ⁽¹⁾	Edmonton Par Price (Cdn\$/bbl)	AECO Gas Price (Cdn\$/mmbtu)
2009	69.70	68.61	7.58
2010	80.00	78.94	7.94
2011	84.57	83.54	8.34
2012	91.89	90.92	8.70
2013	96.85	95.91	8.95
2014-2018 ⁽²⁾	102.82	101.87	9.54
Thereafter ⁽³⁾	2.0%	2.0%	2.0%

⁽¹⁾ Future prices incorporated these US/Cdn exchange rates: 2009 - 0.825, 2010 - 0.85, 2011 - 0.875, 2012 - 0.925, 2013 and thereafter - 0.95.

⁽²⁾ Prices shown are the average over the period.

⁽³⁾ Percentage change of 2.0% represents the change in future prices each year after 2018 to the end of the reserve life.

5. BANK DEBT

At December 31, 2008, the Company's credit facilities consisted of a \$215 million extendible revolving term credit facility and a \$10 million working capital credit facility with a syndicate of Canadian chartered banks. On April 15, 2008, the Company increased the credit facility borrowing base from \$185 million to \$225 million. The facilities were available on a revolving basis for a period of at least 364 days until April 15, 2009, and such initial term out date could have been extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities would have been available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. Various borrowing options were available under the facilities including prime rate based advances and banker's acceptance loans. The credit facilities were secured by a \$500 million fixed and floating charge debenture on the assets of the Company. The borrowing base was subject to semi-annual review by the banks.

Subsequent to year end, in conjunction with the Arrangement described in note 1, a new \$650 million extendible revolving term credit facility was entered into for a period of at least 364 days until January 14, 2010, and such initial term out date may be extended for further 364 day periods, subject to approval by the banks. As with previous credit facilities, the amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility which may require a repayment to the lenders over the following 12 month period. The initial test for the new facility was performed in December 2008 using the reserves determined as at September 1, 2008 for the Arrangement and then current commodity prices determined by the lenders. The new facility is secured by a \$1.5 billion fixed and floating charge debenture on the assets of the new combined entity, Progress Energy Resources Corp. The next semi-annual borrowing base review will be in April 2009.

6. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$35.0 million which will be incurred over the next 42 years with the majority of costs incurred between 2019 and 2029. A credit adjusted risk-free rate of eight percent was used to calculate the fair value of the asset retirement obligations.

The following reconciles the Company's asset retirement obligations:

<i>(\$ thousands)</i>	2008	2007
Balance, beginning of year	5,691	1,791
Liabilities incurred	1,622	1,819
Liabilities acquired	-	1,990
Liabilities settled	(740)	(341)
Accretion expense	506	432
Change in estimates	(305)	-
Balance, end of year	6,774	5,691

The change in estimate in 2008 is the result of an extension to the estimated timing of cash flows required to settle the asset retirement obligations.

7. SHARE CAPITAL

Authorized

Unlimited number of voting common shares, without nominal or par value

701,300 Class B Performance Shares, without nominal or par value

<i>(\$ thousands – except share amounts)</i>	2008		2007	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of year	52,527,916	332,128	39,690,659	189,820
Issued for cash	1,850,000	30,062	11,300,000	150,357
Issued on exercise of Options	231,633	3,581	29,000	355
Issued on exercise of Warrants	4,588,658	5,025	1,378,511	2,412
Issued on exercise of Class B Performance Shares	503,871	357	129,746	1
Flow through share renouncement	-	(6,516)	-	(6,094)
Share issue costs, net of tax of \$408 (2007 - \$1,423)	-	(1,026)	-	(4,723)
Balance, end of year	59,702,078	363,611	52,527,916	332,128
Warrants				
Balance, beginning of year	4,765,028	1,727	6,143,539	2,223
Exercised	(4,760,236)	(1,727)	(1,378,511)	(496)
Expired	(4,792)	-	-	-
Balance, end of year	-	-	4,765,028	1,727
Class B Performance Shares				
Balance, beginning of year	551,197	6	694,661	7
Exercised	(551,197)	(6)	(143,369)	(1)
Forfeited	-	-	(95)	-
Balance, end of year	-	-	551,197	6
Total share capital, end of year		363,611		333,861

Shares issued for cash

On December 16, 2008, ProEx issued 1,850,000 flow-through common shares at a price of \$16.25 per flow-through share. The aggregate proceeds, net of share issue costs of \$1.4 million (\$1.0 million net of tax) were \$29.0 million. Pursuant to the flow-through share offering, ProEx will incur \$30.1 million of qualifying resource expenditures prior to December 31, 2009, to satisfy its flow-through share obligation. ProEx will renounce the qualifying resource expenditures to holders of the flow-through shares effective on or before December 31, 2008. The future income tax effect and reduction to share capital will be accounted for in the first quarter of 2009, the date that the Company filed the renouncement documents with the tax authorities.

On April 2, 2007, ProEx issued 8,050,000 common shares at a price of \$12.45 per share for aggregate gross proceeds of \$100.2 million (\$95.6 million net of issue costs) to acquire the northeast British Columbia assets. See note 3 for further disclosure on the Asset Acquisition.

On September 12, 2007 ProEx issued 1,830,000 common shares at a price of \$13.70 per common share and 1,420,000 flow-through common shares at a price of \$17.65 per flow-through share. The aggregate proceeds, net of share issue costs of \$2.3 million (\$1.6 million net of tax) were \$47.8 million. Pursuant to the flow-through share offering, ProEx incurred \$25.1 million of qualifying resource expenditures prior to December 31, 2008, to satisfy its flow-through share obligation. ProEx renounced the qualifying resource expenditures to holders of the flow-through shares effective before December 31, 2007. The future income tax effect and reduction to share capital was accounted for in the first quarter of 2008, the date that the Company filed the renouncement documents with the tax authorities.

Warrants

Each common share purchase Warrant ("Warrants") entitled the holder to purchase one common share at a price of \$1.39 per share. For the year ended December 31, 2008, 4,760,236 Warrants were exercised, which resulted in the issue of 4,588,658 shares. The difference between the Warrants exercised and shares issued was due to Warrant holders exercising their right to receive fewer shares in lieu of payment of the exercise price. All unexercised Warrants expired on June 28, 2008.

Class B Performance Shares

Each Class B Performance Share was convertible into a percentage of a common share equal to the closing trading price of the common shares on the TSX on the trading day prior to such conversion (the "Current Market Price") less \$1.39, if positive, divided by the current market price.

Holders of Class B Performance Shares were not entitled to any voting rights or to receive notice of or attend any meetings of the shareholders of the Company, were not entitled to receive any dividends on the performance shares and were not entitled upon any liquidation, dissolution or winding-up of the Company to any return of capital other than the payment of the redemption price for each performance share in preference to the holders of common shares. All Class B Performance Shares were exercised prior to their expiry on June 28, 2008.

Management of Capital Structure

Since inception of the Company in July 2004, \$788.6 million has been incurred in capital expenditures and acquisitions (net of dispositions of \$12.0 million). This has been funded by cash flow from operating activities (before changes in non-cash working capital) of \$269.2 million, the issuance of new equity of \$352.0 million and increased bank debt and working capital of \$167.4 million.

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore the Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In the management of capital, the Company includes share capital and total debt (defined as the sum of current assets, current liabilities and bank debt) in the definition of capital. ProEx manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure ProEx may issue new common shares, issue new debt, issue new debt to replace existing debt with different characteristics, adjust exploration and development capital expenditures, and acquire or dispose of assets. Subsequent to December 31, 2008, Progress Energy Resources Corp. issued 12,950,000 common shares at a price of \$10.85 per share (refer to note 1) to maintain its flexible capital structure. The underwriters have an over-allotment option to purchase an additional 1,942,500 common shares on the same terms and conditions as the offering, exercisable at any time from the closing of the offering until 30 days thereafter

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash working capital) stayed constant. At December 31, 2008 total debt was \$177.3 million and cash flow from operating activities (before changes in non-cash working capital) for the year ended December 31, 2008 was \$111.1 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 1.60. Annualized fourth quarter 2008 cash flow from operating activities (before changes in non-cash working capital) was \$95.9 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 1.86. Both of these ratios are in an acceptable range for the Company.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including; the current economic conditions; the current financial markets; the risk characteristics of the underlying assets; the depth of its investment opportunities, forecasted investment levels; the past efficiencies of our investments; the efficiencies of the forecasted investments and the desired pace of investment; current and forecasted total debt levels; current and forecasted natural gas prices and other factors that influence natural gas prices and cash flow from operating activities (before changes in non-cash working capital), such as foreign exchange and basis differential.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted debt to forecasted cash flow from operating activities (before changes in non-cash working capital) ratio while attempting to finance an acceptable investment program including incremental investment and acquisition opportunities; the current level of bank credit available from the bank syndicate; the level of bank credit that may be obtainable from its banking syndicate as a result of natural gas reserve growth or current commodity prices; the availability of other sources of debt with different characteristics than the existing bank debt; the sale of assets; limiting the size of the investment program and new common equity if available on favorable terms.

During 2008, the Company's strategy in managing its capital was unchanged.

Earnings per share

Net earnings per Common Share figures have been calculated using the treasury stock method. The following table reconciles the denominators used for the basic and diluted earnings per common share calculations.

	2008	2007
Weighted Average Common Shares		
Basic	56,348,109	47,326,111
Effect of Warrants	1,169,953	4,820,057
Effect of stock options	45,152	-
Effect of Class B Performance Shares	129,839	555,858
Diluted	57,693,053	52,702,026

Long term incentive compensation

Stock options

Under the terms of the stock option plan (the "Plan"), directors and officers of ProEx and Progress employees in their capacity as service providers were granted options to purchase common shares. Options granted under the Plan have a term of five years to expiry and vest over a three year period. The exercise price of each option equals the market price of the Company's common shares on the date of grant.

The following table sets forth a reconciliation of the Plan activity through December 31, 2008.

	Number of options	Weighted average exercise price (\$)
Balance, December 31, 2006	778,334	10.63
Granted	1,207,500	13.87
Forfeited	(23,333)	10.72
Exercised	(29,000)	13.16
Balance, December 31, 2007	1,933,501	12.63
Granted	100,000	15.07
Forfeited	(127,001)	13.95
Exercised	(231,633)	11.35
Balance, December 31, 2008	1,674,867	12.86

The following table summarizes stock options outstanding and exercisable under the Plan at December 31, 2008.

Range of exercise price	Options outstanding		Options exercisable		
	Number outstanding at end of year	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at end of year	Weighted average exercise price
\$5.60 to \$7.95	207,000	0.59	5.64	207,000	5.64
\$9.08 to \$13.40	156,000	1.87	12.52	99,167	12.34
\$13.66 to \$16.50	1,311,867	3.39	14.04	355,700	13.95
	1,674,867	2.83	12.86	661,867	11.11

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options and Class B Performance Shares granted to officers and directors of ProEx and Progress employees in their capacity as service providers, with a corresponding increase to contributed surplus.

The fair value of the options granted during the period was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	2008	2007
Risk free interest rate (%)	3.66	4.48
Expected life (years)	3.00	3.00
Expected volatility (%)	38.4	40.4
Weighted average fair value of options granted (\$)	5.94	5.88

Subsequent to year-end as part of the Arrangement a new stock option plan (the “New Plan”) was approved and 4,472,500 options at a price of \$11.40 were granted in January 2009 to directors, officers and employees of the Corporation. Options granted under the New Plan have a term of five years to expiry and vest over a four year period. The exercise price of each option equals the market price of the Corporation’s common shares on the date of grant.

The New Plan provides for the granting of up to 10 percent of the issued and outstanding common shares of the Corporation. As part of the New Plan, 10,000,000 common shares have been set aside and reserved for the granting of stock options.

Share Appreciation Rights (SARs)

Commencing in the third quarter of 2008, the Company approved the issuance of SARs to certain employees, which entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of the Company’s common shares on date of surrender. The vesting period and other terms are similar to the terms of the Company’s prior existing stock option plan. The exercise price is based on the market price at the time of grant. For the year ended December 31, 2008, 105,000 (2007 – nil) SARs have been issued at an average exercise price of \$13.52. No compensation expense relating to the SARs has been recorded for the year ended December 31, 2008 (2007 –nil).

The following table reconciles the Company’s contributed surplus:

<i>(\$ thousands)</i>	2008	2007
Balance, beginning of year	3,522	1,453
Stock based compensation expense		
Stock options	2,933	2,090
Class B Performance shares	-	24
Exercise of stock options and Class B Performance shares	(1,303)	(45)
Balance, end of year	5,152	3,522

Long Term Incentive Compensation

Under the terms of Progress’ long term incentive compensation plan (the “LTI”), non-executive Progress employees in their capacity as service providers, may be granted LTI awards to be paid in common shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. Awards granted under the LTI will vest on the second anniversary date of the date of grant. ProEx has agreed to reimburse Progress for this expense, therefore the total compensation expense of \$2.6 million has been included in prepaid expenses and \$2.3 million will be amortized through long term incentive compensation expense and \$0.3 million will be capitalized equally over the two year vesting period. For the year ended December 31, 2008 182,056 common shares of ProEx have been granted to Progress employees in their capacity as service providers.

Accumulated Other Comprehensive Income

<i>(\$ thousands)</i>	2008	2007
Balance, beginning of year	-	-
Fair value of financial instruments upon initial adoption of new accounting standard	-	4,947
Fair value applicable to the period, amortized to earnings	-	(4,947)
Balance, end of year	-	-

8. FUTURE INCOME TAXES

The provision for future income taxes in the statements of earnings and retained earnings reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

<i>(\$ thousands)</i>	2008	2007
Net earnings before taxes	53,129	24,566
Statutory income tax rate	30.25%	33.12%
Expected income taxes	16,072	8,136
Add (deduct):		
Change in provincial/federal tax rates	(2,992)	(4,178)
Other	888	536
Future income tax expense	13,968	4,494

The estimated future income tax liability at December 31, 2008 and December 31, 2007 is comprised of the tax effect of temporary differences as follows:

<i>(\$ thousands)</i>	2008	2007
Property, plant and equipment	44,342	24,245
Asset retirement obligations	(1,727)	(1,479)
Loss carry-forward	(2,253)	(78)
Share issue costs	(2,144)	(2,765)
Fair value of financial instruments	1,782	-
Attributed Canadian Royalty Income	(172)	(171)
Future income tax liability	39,828	19,752

As at December 31, 2008, the Company has federal tax deductions of approximately \$520.1 million (2007 - \$444.4 million) that is available to shelter future taxable income.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

<i>(\$ thousands)</i>	2008	2007
Accounts receivable	(4,210)	2,683
Prepaid expenses and deposits	1,769	(2,259)
Accounts payables and accrued liabilities	13,811	11,645
Change in non-cash working capital	11,370	12,069
Relating to:		
Financing activities	-	(79)
Investing activities	7,684	10,556
Operating activities	3,686	1,592

Interest

<i>(\$ thousands)</i>	2008	2007
Interest received	35	72
Interest paid	(6,479)	(4,111)

10. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Company's financial instruments recognized in the balance sheet consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, bank debt and derivative natural gas contracts ("financial instruments"). The fair value of these instruments, excluding the derivative natural gas contracts, approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt. The fair value of the natural gas contracts is recognized on the balance sheet as described below.

Credit risk

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms by Progress in accordance with the Technical Services Agreement. ProEx monitors the financial condition of Progress on a quarterly basis in order to mitigate the concentration of credit risk with this counterparty. At December 31, 2008 \$2.6 million was owed from Progress. All other accounts receivable are with customers and joint venture partners in the petroleum and natural gas business under normal industry sale and payment terms and are subject to normal credit risks. The Company routinely assesses the financial strength of its customers.

At December 31, 2008, financial assets on the balance sheet are comprised of cash, accounts receivable and natural gas derivative contracts. The maximum credit exposure at December 31, 2008 is the carrying amount of accounts receivable of \$24.3 million. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Production is sold to customers with investment grade credit ratings, if available in the area of production, or parental guarantees and letters of credit are sought. Of the \$24.3 million accounts receivable outstanding, \$13.7 million related to the sale of petroleum and natural gas and was received January 25, 2009. Of the remaining balance, \$3.9 million was due from the federal and provincial governments relating to GST refunds and provincial drilling credits and \$6.7 million was due from joint venture partners, including Progress mentioned above, relating to the recovery of their interest in operating costs and capital spent. The largest amount owing from one partner was \$0.7 million. As the operator of properties, ProEx has the ability to not allocate production to joint venture partners who are in default of amounts owing. At December 31, 2008 there was no allowance for the impairment of accounts receivable.

Currency risk

The Company does not sell or transact in any foreign currency, however, the US dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result can affect the fair value and future cash flows of derivative natural gas contracts, however, given it is an indirect influence, the impact of changing exchange rates cannot be accurately quantified. The Company has a derivative natural gas contract outstanding at December 31, 2008 based on both Canadian and US natural gas market indices. The "basis hedge" outlined in the table below is the only instrument the Company has that is directly affected by changes in the US/Canadian exchange rate. A \$0.05 increase or decrease in the US/Canadian exchange rate would have resulted in a change of less than \$0.1 million to 2008 net earnings as a result of the change in fair value of the instruments net of future income taxes based on the terms of the instrument below. The Company's other financial assets and liabilities are not directly affected by a change in currency rates.

Interest rate risk

The Company is exposed to interest rate risk on its outstanding bank debt which has a floating interest rate and would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at December 31, 2008.

Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and bank debt. The new credit facility is available on a revolving basis for a period of at least 364 days until January 14, 2010, and such initial term out date may be extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facility will be available on a non-revolving basis for a one year term, at which time the facility would be due and payable. Progress Energy Resources Corp. anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows and available credit facility (for further information, refer to "Management of Capital Structure" in note 7). The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the balance sheet at December 31, 2008 would not be directly impacted by changes in currency rates. In regards to interest rate risk, an increase or decrease of one percent to the effective interest rate for the Company, given average bank debt for the year of approximately \$150.1 million, would have impacted 2008 net earnings by \$1.1 million. In regards to commodity prices, the financial instruments directly affected by changes in commodity prices are the derivative natural gas contracts listed below. Assuming a \$0.25 change to the price per thousand cubic feet of natural gas, the fair value change in the natural gas contracts would have impacted 2008 net earnings by approximately \$0.2 million based on the volumes and remaining terms of the contracts as at December 31, 2008 outlined below. The Company's financial instruments are not directly impacted by changes in crude oil prices. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of the derivative natural gas contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Financial Derivative Contracts

ProEx has entered into derivative natural gas financial instruments for the purpose of protecting its cash flow from operations (before changes in non-cash working capital) from the volatility of natural gas prices. For 2008, the Company's natural gas price risk management program had a net realized loss of \$3.8 million (2007 – gain of \$7.9 million). As described in Note 2, the Company recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of earnings. For the year ended December 31, the fair value was an asset of \$6.0 million, resulting in an unrealized gain for the year ended December 31, 2008 of \$6.0 million.

At January 1, 2007 ProEx adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. As a result, for the year ended December 31, 2007, \$4.9 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of \$7.4 million and a charge to future income tax expense of \$2.5 million. The unrealized gain of \$7.4 million was offset by the change in fair value on the natural gas financial instruments from January 1, 2007 of \$7.4 million resulting in an unrealized gain of nil for 2007.

Contracts outstanding in respect to financial instruments are as follows:

Natural Gas	Volume	Pricing Point	Strike Price (\$/gj)	Cost/Premium	Term
Swap - call spread ¹	5,000 gj/d	AECO	Cdn\$10.38–Cdn\$13.38	\$0.95/gj	Nov01/08 – Mar 31/09
Swap - call spread ¹	5,000 gj/d	AECO	Cdn\$10.54–Cdn\$13.54	\$0.94/gj	Nov01/08 – Mar 31/09
Swap - call spread ¹	5,000 gj/d	AECO	Cdn\$10.90–Cdn\$13.90	\$0.90/gj	Nov01/08 – Mar 31/09
Swap – basis hedge ²	5,000 mmbtu/d	NYMEX	Cdn (\$0.72)	-	Nov01/08 – Mar 31/09

¹ Call spread strike prices indicate minimum floor and maximum ceiling

² This basis hedge was closed out subsequent to year-end.

11. COMMITMENTS

The Company is committed to future minimum payments for natural gas transmission and processing, operating leases on compression equipment, drilling rig contracts, farm-in agreements and future premiums on financial derivative contracts. As described in note 5, the Company's extendible term credit facility is available on a revolving basis until January 14, 2010. This initial term out date may be extended for a further 364 day period at the request of the Company, subject to approval by the banks. Following the term out date, the facility will be available on a non-revolving basis for a one year term. Without assuming the renewal of the credit facility, payments required under these commitments for each of the next five years are: 2009 - \$26.4 million; 2010 - \$182.7 million; 2011 - \$13.3 million; 2012 - \$1.2 million; and 2013 - nil.

2008 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd.

FINANCIAL HIGHLIGHTS

(\$ thousands, except per share amounts)	Three months ended 2008				Annual
	March 31	June 30	Sept. 30	Dec. 31	2008
Income Statement					
Petroleum and natural gas revenues	48,787	61,949	61,264	44,347	216,347
Cash Flow	26,069	31,867	29,150	23,981	111,067
Per share – basic	0.49	0.57	0.50	0.41	1.97
Per share – diluted	0.46	0.55	0.50	0.41	1.93
Net earnings	1,873	5,307	27,747	4,233	39,161
Per share – basic	0.04	0.09	0.48	0.07	0.69
Per share – diluted	0.03	0.09	0.48	0.07	0.68
Balance Sheet					
Capital investment					
Land acquisitions and retention	2,249	1,665	6,983	15,382	26,279
Geological and geophysical	4,857	1,227	409	362	6,855
Drilling and completions	38,167	4,889	42,869	40,708	126,633
Equipping and facilities	19,487	4,410	8,417	10,899	43,213
Net property acquisitions (dispositions)	-	6,964	-	1,956	8,920
	64,760	19,155	58,678	69,307	211,900
Total debt					
Bank debt	129,398	140,000	140,673	160,000	160,000
Working capital deficiency (surplus)	18,344	(8,903)	19,891	17,264	17,264
	147,742	131,097	160,564	177,264	177,264
Shareholders' equity	387,230	397,294	425,869	459,891	459,891
Share Information (thousands, except per share amounts)					
Shares outstanding at end of period					
Common	53,951	57,847	57,852	59,702	59,702
Weighted average shares outstanding for the period					
Basic	52,931	56,376	57,851	58,194	56,348
Diluted	57,204	57,467	57,851	58,194	57,693
Volume traded	20,540	28,581	20,833	31,797	101,751
Common share price (\$)					
High	16.97	24.20	23.05	14.38	24.20
Low	11.57	15.41	13.05	9.35	9.35
Closing	16.50	22.99	13.31	11.20	11.20

2008 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd.

OPERATIONAL HIGHLIGHTS

	Three months ended 2008				Annual
	March 31	June 30	Sept. 30	Dec. 31	2008
-Production					
Natural gas (mcf/d)	57,880	58,426	62,204	63,105	60,416
Crude Oil (bbls/d)	506	405	461	433	451
Natural gas liquids (bbls/d)	341	307	294	304	311
Total production (boe/d)	10,493	10,449	11,122	11,255	10,832
Pricing					
Natural gas (\$/mcf)	7.84	9.92	8.96	6.98	8.40
Crude oil (\$/bbl)	92.41	117.08	116.98	58.35	96.01
Natural gas liquids (\$/bbl)	81.34	100.01	99.57	59.90	84.97
Highlights (\$/boe)					
Petroleum and natural gas revenues	51.09	65.14	59.87	42.83	54.57
Realized gain on financial instrument	-	(3.52)	(4.36)	3.85	(0.96)
Royalties	(11.13)	(13.63)	(12.88)	(8.97)	(11.62)
Operating expenses	(5.58)	(5.82)	(6.39)	(6.70)	(6.14)
Transportation expenses	(3.88)	(5.02)	(4.57)	(4.60)	(4.52)
Operating netback	30.50	37.15	31.67	26.41	31.33
General and administrative expenses	(1.29)	(1.36)	(1.12)	(1.16)	(1.23)
Long term incentive compensation expense(cash component)	(0.27)	(0.31)	(0.30)	(0.31)	(0.30)
Interest and financing expenses	(1.45)	(1.75)	(1.63)	(1.56)	(1.60)
Asset retirement expenditures	(0.19)	(0.22)	(0.13)	(0.21)	(0.19)
Cash Flow	27.30	33.51	28.49	23.17	28.01
Unrealized gain (loss) on financial instruments	(10.28)	(10.16)	26.22	(1.28)	1.52
Asset retirement expenditures	0.19	0.22	0.13	0.21	0.19
Stock based compensation expense	(0.61)	(0.87)	(0.75)	(0.73)	(0.74)
Depletion, depreciation and accretion expenses	(15.12)	(15.43)	(15.71)	(16.03)	(15.58)
Net earnings before taxes	1.48	7.27	39.38	5.34	13.40
Future income taxes	0.48	(1.69)	(11.26)	(1.25)	(3.52)
Net earnings	1.96	5.58	27.12	4.09	9.88
Gross Drilling Results (# of wells)					
Natural gas	26	-	18	14	58
Crude oil	-	-	-	-	-
Dry and abandoned	-	-	3	-	3
	26	-	21	14	61
Net Drilling Results (# of wells)					
Natural gas	18.3	-	14.0	10.3	42.6
Crude oil	-	-	-	-	-
Dry and abandoned	-	-	2.4	-	2.4
	18.3	-	16.4	10.3	45.0
Success rate (%)	100	n/a	86	100	95

2007 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd

FINANCIAL HIGHLIGHTS

(\$ thousands, except per share amounts)

	Three months ended 2007				Annual
	March 31	June 30	Sept. 30	Dec. 31	2007
Income Statement					
Petroleum and natural gas revenues	28,524	37,347	28,231	38,057	132,160
Cash Flow	17,907	18,628	15,176	22,098	73,808
Per share – basic	0.45	0.39	0.31	0.42	1.56
Per share – diluted	0.39	0.35	0.28	0.39	1.40
Net earnings	4,066	7,564	716	7,725	20,072
Per share – basic	0.10	0.16	0.01	0.15	0.42
Per share – diluted	0.09	0.14	0.01	0.14	0.38
Balance Sheet					
Capital Sheet					
Capital investment					
Land acquisitions and retention	2,811	290	1,225	1,940	6,266
Geological and geophysical	4,885	1,181	1,424	3,686	11,175
Drilling and completions	34,660	3,387	26,409	45,483	109,939
Equipping and facilities	7,888	1,733	4,934	8,232	22,787
Net property acquisitions (dispositions)	244	137,007	591	14,681	152,523
	50,488	143,598	34,583	74,022	302,690
Total debt					
Bank debt	59,772	95,149	53,777	96,881	96,881
Working capital deficiency (surplus)	10,086	(6,738)	5,575	14,105	14,105
	69,858	88,411	59,352	110,986	110,986
Shareholders' equity	225,865	331,090	380,727	389,350	389,350
Share Information <i>(thousands, except per share amounts)</i>					
Shares outstanding at end of period					
Common	39,829	48,548	52,362	52,528	52,528
Weighted average shares outstanding for the period					
Basic	39,768	47,940	49,318	52,121	47,326
Diluted	45,820	53,960	54,575	56,776	52,702
Volume traded	13,855	16,492	12,650	10,157	53,154
Common share price (\$)					
High	15.49	16.74	15.25	14.91	16.74
Low	11.83	14.02	12.79	11.10	11.10
Closing	15.15	15.00	14.14	11.83	11.83

2007 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd

OPERATIONAL HIGHLIGHTS

	Three months ended 2007				Annual
	March 31	June 30	Sept. 30	Dec. 31	2007
Production					
Natural gas (mcf/d)	36,631	49,530	48,082	52,917	46,838
Crude Oil (bbls/d)	384	414	438	590	457
Natural gas liquids (bbls/d)	246	239	225	270	245
Total production (boe/d)	6,735	8,909	8,677	9,680	8,509
Pricing					
Natural gas (\$/mcf)	7.59	7.42	5.34	6.43	6.63
Crude oil (\$/bbl)	64.46	68.32	77.64	83.77	74.80
Natural gas liquids (\$/bbl)	61.24	66.29	66.98	78.11	68.49
Highlights (\$/boe)					
Petroleum and natural gas revenues	47.06	46.07	35.37	42.73	42.55
Realized gain on financial instrument	5.83	0.05	3.89	1.41	2.56
Royalties	(12.47)	(10.62)	(7.95)	(7.89)	(9.51)
Operating expenses	(4.80)	(5.35)	(5.09)	(5.07)	(5.09)
Transportation expenses	(3.68)	(4.48)	(4.07)	(4.06)	(4.10)
Operating netback	31.94	25.67	22.15	27.12	26.43
General and administrative expenses	(1.17)	(0.95)	(1.16)	(0.54)	(0.93)
Long term incentive compensation expense (cash component)	-	(0.23)	(0.32)	(0.34)	(0.24)
Interest and financing expenses	(0.81)	(1.52)	(1.59)	(1.37)	(1.36)
Asset retirement expenditures	(0.42)	0.02	(0.06)	(0.06)	(0.11)
Funds generated from operations	29.54	22.99	19.02	24.81	23.77
Unrealized gain (loss) on financial instruments	(6.65)	6.43	(0.41)	(0.95)	-
Asset retirement expenditures	0.42	(0.02)	0.06	0.06	0.11
Stock based compensation expense	(0.47)	(0.38)	(0.79)	(1.00)	(0.68)
Depletion, depreciation and accretion expenses	(13.35)	(16.04)	(16.33)	(14.98)	(15.29)
Net earnings before taxes	9.49	12.98	1.55	7.94	7.91
Future income taxes	(2.78)	(3.63)	(0.65)	(0.73)	(1.45)
Net earnings	6.71	9.35	0.90	8.67	6.46
Gross Drilling Results (# of wells)					
Natural gas	19	-	15	30	64
Crude oil	-	-	-	-	-
Dry and abandoned	5	-	-	1	6
	24	-	15	31	70
Net Drilling Results (# of wells)					
Natural gas	12.8	-	10.3	19.2	42.3
Crude oil	-	-	-	-	-
Dry and abandoned	2.4	-	-	0.8	3.2
	15.2	-	10.3	20.0	45.5
Success rate (%)	84	-	100	96	93

CORPORATE INFORMATION

PROGRESS ENERGY RESOURCES CORP.

DIRECTORS

David D. Johnson
Executive Chairman
Progress Energy Resources Corp.
Calgary, Alberta

Donald F. Archibald ⁽¹⁾⁽⁴⁾
Chairman
Iteration Energy Ltd.
Calgary, Alberta

John A. Brussa ⁽²⁾⁽⁴⁾
Partner
Burnet, Duckworth and Palmer LLP
Calgary, Alberta

Howard J. Crone ⁽¹⁾⁽³⁾
Independent Businessman
Calgary, Alberta

Michael R. Culbert
President & CEO
Progress Energy Resources Corp.
Calgary, Alberta

Brian McLachlan ⁽²⁾⁽⁴⁾
President & Chief Executive Officer
Yoho Resources Inc.
Calgary, Alberta

Gary E. Perron ⁽¹⁾⁽²⁾
Senior Vice President and
Managing Director
BMO Nesbitt Burns
Calgary, Alberta

Terrance D. Svarich ⁽³⁾⁽⁴⁾
President
Devsun Ltd.
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation
Committee

⁽³⁾ Member of Reserve Committee

⁽⁴⁾ Member of Corporate Governance
and Nominating Committee

Environment and Health and Safety
Matters are addressed by the entire
Board of Directors

OFFICERS

David D. Johnson
Executive Chairman

Michael R. Culbert
President & CEO

Daniel C. Topolinsky
Senior Vice President, Exploration

Greg W. Kist
Vice President, Investor Relations
and Marketing

Art A. MacNichol
Vice President, Finance &
Chief Financial Officer

Gary A. Miller
Vice President, Operations

Cindy R. Rutherford
Vice President, Land

James L. Stannard
Vice President, Engineering

Gary R. Bugeaud
Secretary

CORPORATE OFFICE

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Facsimile: (403) 216-2514
Website: www.proexenergy.com

TRUSTEE AND TRANSFER AGENT

Computershare Trust Company of
Canada
Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange trading
symbol PRQ
6.75% Debentures – PRQ.DB
6.25% Debentures – PRQ.DB.A

SOLICITOR

Burnet, Duckworth & Palmer LLP
1400, 350 – 7th Avenue S.W.
Calgary, Alberta T2P 3N9

AUDITOR

KPMG LLP
2700, 205 – 5th Avenue S.W.
Calgary, Alberta T2P 4B9

CONSULTING ENGINEERS

GLJ Petroleum Consultants Ltd.
4100, 400 – 3rd Avenue S.W.
Calgary, Alberta T2P 4H2

INVESTOR RELATIONS

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