



**Unaudited Interim
Consolidated Financial Statements
For the three months ended March 31, 2010**

EPSILON ENERGY LTD.

INDEX

Interim Unaudited Consolidated Balance Sheets.....	2
Interim Unaudited Consolidated Statements of Operations and Deficit.....	3
Interim Unaudited Consolidated Statements of Cash Flows	4
Interim Unaudited Consolidated Statements of Comprehensive Income (Loss).....	5
Notes to the Unaudited Interim Consolidated Financial Statements	6
1. Description of Business	6
2. Significant accounting policies	6
3. Property and Equipment	6
4. Restricted Cash	8
5. Shareholders' Equity.....	8
6. Commitments and Contingencies	11
7. Financial Instruments.....	12
8. Related Party Transactions	13
9. Reportable Geographical Segments.....	14
10. Capital Disclosures	15
11. Subsequent Events	15
12. Comparative Information.....	15

EPSILON ENERGY LTD.
Interim Unaudited Consolidated Balance Sheets
(Unaudited; All amounts stated in US\$)

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,016,241	\$ 15,288,547
Accounts receivable	1,990,746	1,488,429
Assets held for sale	100,000	100,000
Other current assets	137,672	62,382
Total current assets	<u>23,244,659</u>	<u>16,939,358</u>
Property and equipment:		
Net property and equipment (Note 3)	<u>61,579,373</u>	<u>66,691,074</u>
Other assets:		
Restricted cash (Note 4)	687,050	732,240
Other deferred charges and miscellaneous assets	18,504	18,504
Total other assets	<u>705,554</u>	<u>750,744</u>
Total assets	<u>\$ 85,529,586</u>	<u>\$ 84,381,176</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,657,683	\$ 3,460,740
Total current liabilities	<u>3,657,683</u>	<u>3,460,740</u>
Other liabilities:		
Asset retirement obligations	165,713	214,393
Total other liabilities	<u>165,713</u>	<u>214,393</u>
Total liabilities	<u>3,823,396</u>	<u>3,675,133</u>
Commitments and contingencies (Note 6)		
Related party transactions (Note 8)		
Subsequent events (Note 11)		
Shareholders' equity:		
Share capital (Note 5)	138,769,832	138,272,250
Contributed surplus (Note 5)	6,117,350	6,098,296
Deficit	(56,737,304)	(56,787,577)
Accumulated other comprehensive loss	(6,443,688)	(6,876,926)
Total shareholders' equity	<u>81,706,190</u>	<u>80,706,043</u>
Total liabilities and shareholders' equity	<u>\$ 85,529,586</u>	<u>\$ 84,381,176</u>

The accompanying notes are an integral part of these interim consolidated financial statements

EPSILON ENERGY LTD.
Interim Unaudited Consolidated Statements of Operations and Deficit
(Unaudited; all amounts stated in US\$)

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Oil & gas revenues	\$ 3,996,124	\$ 1,635,433
Other revenues	-	72,084
Total revenues	<u>3,996,124</u>	<u>1,707,517</u>
Operating costs and expenses:		
Project operating costs	426,776	467,249
Amortization, depletion and accretion	1,576,889	696,711
General and administrative	<u>1,960,040</u>	<u>1,306,192</u>
Total operating costs and expenses	<u>3,963,705</u>	<u>2,470,152</u>
Operating income (loss)	<u>32,419</u>	<u>(762,635)</u>
Other income (expense):		
Other income (expense)	<u>17,854</u>	<u>(72,302)</u>
Net income (loss)	<u>50,273</u>	<u>(834,937)</u>
Deficit, beginning of period	<u>(56,787,577)</u>	<u>(36,558,958)</u>
Deficit, end of period	<u>\$ (56,737,304)</u>	<u>\$ (37,393,895)</u>
Basic and diluted net income (loss) per share	\$ 0.00	\$ (0.02)
Weighted average number of shares outstanding	50,550,998	50,315,323

The accompanying notes are an integral part of these interim consolidated financial statements

EPSILON ENERGY LTD.
Interim Unaudited Consolidated Statements of Cash Flows
(Unaudited; all amounts stated in US\$)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss) for the period	\$ 50,273	\$ (834,937)
Items not involving cash:		
Amortization, depletion and accretion	1,576,889	696,711
Stock-based compensation	216,634	367,798
Changes in non-cash balances related to operations	<u>(377,129)</u>	<u>(6,502,800)</u>
Net cash provided by (used in) operating activities	<u>1,466,667</u>	<u>(6,273,228)</u>
Cash flows from investing activities:		
Cash received on farmout with joint venture partner	5,000,000	-
Additions to property and equipment	(1,465,842)	(11,184,369)
Changes in non-cash investing working capital items	42,956	2,879,582
Changes in restricted cash	45,190	8,682,308
Changes in other assets and other liabilities	-	7,203
Net cash provided by investing activities	<u>3,622,304</u>	<u>384,724</u>
Cash flows from financing activities:		
Proceeds from the issuance of common shares (issuance costs)	300,000	(280)
Proceeds from lines of credit	-	5,804,936
Change in long-term liabilities	<u>(3,535)</u>	<u>(3,023)</u>
Net cash provided by financing activities	<u>296,465</u>	<u>5,801,633</u>
Effect of currency rates on cash and cash equivalents	<u>342,258</u>	<u>(957,253)</u>
Increase (decrease) in cash and cash equivalents	<u>5,727,694</u>	<u>(1,044,124)</u>
Cash and cash equivalents, beginning of period	15,288,547	8,233,442
Cash and cash equivalents, end of period	<u>\$ 21,016,241</u>	<u>\$ 7,189,318</u>
Cash and cash equivalents consist of:		
Cash	20,751,200	7,189,318
Interest bearing short-term deposits	265,041	-
Total cash and cash equivalents	<u>\$ 21,016,241</u>	<u>\$ 7,189,318</u>
Supplementary cash flow information		
Interest received	19,403	190,210
Interest paid	-	220,036

The accompanying notes are an integral part of these interim consolidated financial statements

EPSILON ENERGY LTD.
Interim Unaudited Consolidated Statements of Comprehensive Income (Loss)
and Accumulated Other Comprehensive Loss
(Unaudited; all amounts stated in US\$)

	Three Months Ended March 31,	
	2010	2009
Comprehensive income (loss):		
Net income (loss)	\$ 50,273	\$ (834,937)
Other comprehensive income (loss):		
Currency translation adjustments	433,238	(957,253)
Comprehensive income (loss)	\$ 483,511	\$ (1,792,190)
Accumulated other comprehensive loss:		
Balance, beginning of period	\$ (6,876,926)	\$ (9,807,036)
Currency translation adjustments	433,238	(957,253)
Accumulated other comprehensive loss	\$ (6,443,688)	\$ (10,764,289)

The accompanying notes are an integral part of these interim consolidated financial statements

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

1. Description of Business

Epsilon Energy Ltd. (the “Corporation”) was incorporated under the laws of the Province of Alberta on March 14, 2005. On October 24, 2007, the Corporation became a publicly traded entity on the Toronto Stock Exchange under the trading symbol “EPS”. The Corporation is engaged in the acquisition, exploration, development and production of natural gas and oil reserves. Such activities are concentrated in the following geographic areas:

- Marcellus Shale (“Pennsylvania” and “New York”) and Trenton-Black River in the United States;
- Bakken Shale (“Saskatchewan”) and Utica Shale (“Quebec”) Canada; and
- the Federal Democratic Republic of Ethiopia (“Ethiopia”).

2. Significant accounting policies

The unaudited interim consolidated financial statements have been prepared by management in U.S. dollars and in accordance with Canadian generally accepted accounting policies and follow the same accounting policies as the most recent annual audited financial statements. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles (“GAAP”) applicable for annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Corporation’s audited consolidated financial statements for the years ended December 31, 2009 and 2008. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included.

3. Property and Equipment

The following table summarizes the Corporation’s oil and natural gas property and other equipment as at March 31, 2010 and December 31, 2009:

	<u>Gross Cost</u>	<u>Accumulated Depletion, Depreciation and Impairment</u>	<u>Net Book Value</u>
As at March 31, 2010:			
Oil and natural gas properties			
United States ⁽¹⁾	\$ 63,839,013	\$ (7,954,804)	\$ 55,884,209
Canada	3,407,678	(309,943)	3,097,735
Yemen ⁽²⁾	50,413,720	(50,413,720)	-
Ethiopia	2,097,774	-	2,097,774
Oman ⁽²⁾	929,127	(929,127)	-
Other	279,502	(21,276)	258,226
	<u>\$ 120,966,814</u>	<u>\$ (59,628,870)</u>	<u>\$ 61,337,944</u>
Total oil and natural gas properties			
Other property and equipment	<u>583,433</u>	<u>(342,004)</u>	<u>241,429</u>
Total property and equipment	\$ 121,550,247	\$ (59,970,874)	\$ 61,579,373

Notes:

- (1) During the first quarter of 2010, \$5,000,000 was received as a cash payment from a joint venture partner pursuant to a farmout agreement whereby the joint venture partner will earn a 50% interest in the Marcellus Shale property by paying a further \$95,000,000 over time and by carrying the first \$95,000,000 of Epsilon’s 50% share of costs attributable to the property. No gain or loss on the transaction was recorded as the depletion rate did not change by greater than 20%.

Epsilon Energy Ltd.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2010 and 2009

3. Property and Equipment (continued)

- (2) During the year ending December 31, 2009 the Corporation revised its business strategy to focus on oil and gas exploration and development in North America and withdrew from the Exploration and Production Sharing Agreement covering Block 55 in Oman, where it was the official operator and began to actively market its Yemen interests. As such, as of March 31, 2010 the Corporation had written off all of its assets in Oman. The Corporation also wrote down its Yemen assets to their fair market value of \$100,000 and reclassified them as assets held for sale.

	<u>Gross Cost</u>	<u>Accumulated Depletion, Depreciation and Impairment</u>	<u>Net Book Value</u>
As at December 31, 2009:			
Oil and natural gas properties			
United States	\$ 67,483,813	\$ (6,746,650)	\$ 60,737,163
Canada	3,312,075	(1,390)	3,310,685
Yemen	50,413,720	(50,413,720)	-
Ethiopia	2,094,037	-	2,094,037
Oman	929,127	(929,127)	-
Other property	268,196	(21,276)	246,920
Total oil and natural gas properties	<u>\$ 124,500,968</u>	<u>\$ (58,112,163)</u>	<u>\$ 66,388,805</u>
Other property and equipment	<u>583,591</u>	<u>(281,322)</u>	<u>302,269</u>
Total property and equipment	<u>\$ 125,084,559</u>	<u>\$ (58,393,485)</u>	<u>\$ 66,691,074</u>

Costs excluded from the depletion calculation include \$15,249,812 (2009: \$7,369,526) in the United States and \$1,641,829 (2009: \$1,009,423) in Canada. Capitalized costs in Ethiopia are in the pre-production stage and have not been depleted and recoverability is dependent upon achieving commercial production and profitability.

Capitalized General and Administrative Costs ("G&A")

Capitalized G&A costs consist of wages, travel and other G&A costs directly associated with specific capital projects. Capitalized G&A costs for each country cost center for the three months ended March 31, 2010 and 2009 were as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2010</u>	<u>2009</u>
Capitalized general and administrative costs:		
United States	\$ 107,642	\$ 125,451
Canada	1,369	2,373
Yemen	-	86,900
Oman	-	125,511
Ethiopia	3,548	9,519
Other	11,117	11,488
Total capitalized general and administrative costs	<u>\$ 123,676</u>	<u>\$ 361,242</u>

Epsilon Energy Ltd.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2010 and 2009

4. Restricted Cash

	<u>At March 31,</u> <u>2010</u>	<u>At December 31,</u> <u>2009</u>
Restricted Cash:		
Northwestern Bank - letter of credit	\$ -	\$ 65,000
TD Bank - Yemen letter of credit	458,559	378,233
TD Bank - Ethiopia letter of credit and other	228,491	289,007
Total restricted cash	<u>\$ 687,050</u>	<u>\$ 732,240</u>

5. Shareholders' Equity

(a) Authorized shares

The Corporation is authorized to issue an unlimited number of Common Shares with no par value and an unlimited number of Preferred Shares with no par value.

(b) Issued

The following table summarizes the components of share capital for the three months ended March 31, 2010 and the year ended December 31, 2009:

	<u>Number of</u> <u>Shares Issued</u>	<u>Amount</u>
Balance at December 31, 2008	50,315,323	\$ 138,259,259
Issuance costs for Bought Deal	-	(280)
Exercise of stock options	10,675	13,271
Balance at December 31, 2009	<u>50,325,998</u>	<u>138,272,250</u>
Exercise of stock options	300,000	497,582
Balance at March 31, 2010	<u>50,625,998</u>	<u>\$ 138,769,832</u>

Epsilon Energy Ltd.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three months ended March 31, 2010 and 2009

5. Shareholders' Equity (continued)

(c) Stock Options

The following table summarizes stock option activity for the three months ended March 31, 2010 and the year ended December 31, 2009:

	As at March 31, 2010		As at December 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Stock Options Outstanding:				
Balance at beginning of period	3,017,727	\$ 2.35	3,317,449	\$ 2.60
Granted	400,000	\$ 3.00	360,000	\$ 2.41
Exercised	(300,000)	\$ 1.00	(10,675)	\$ 0.85
Forfeited	(257,316)	\$ 2.88	(649,047)	\$ 3.72
Balance at end of period	<u>2,860,411</u>	<u>\$ 2.53</u>	<u>3,017,727</u>	<u>\$ 2.35</u>
Exercisable at period-end	<u>1,643,911</u>	<u>\$ 1.90</u>	<u>2,117,127</u>	<u>\$ 1.81</u>

The following tables summarize information about stock options outstanding at March 31, 2010 and December 31, 2009:

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Black-Scholes Option Pricing Model Valuation	Weighted Average Remaining Contractual Life (in years)
As at March 31, 2010:				
\$ 0.85	240,595	240,595	\$ 108,339	3.70
\$ 1.00	556,000	556,000	360,186	5.63
\$ 1.34	100,000	-	30,362	2.42
\$ 1.45	70,000	-	40,106	9.37
\$ 1.97	50,000	25,000	37,616	2.56
\$ 2.00	340,000	340,000	336,616	1.59
\$ 2.50	227,316	223,716	784,894	7.23
\$ 2.93	150,000	-	12,919	3.59
\$ 3.04	250,000	-	70,756	9.82
\$ 4.00	771,500	237,600	1,261,935	8.04
\$ 5.60	50,000	10,000	141,374	8.38
\$ 6.10	55,000	11,000	207,836	8.20
Total	<u>2,860,411</u>	<u>1,643,911</u>	<u>\$ 3,392,940</u>	<u>6.05</u>

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

5. Shareholders' Equity (continued)

(c) Stock Options (continued)

<u>Exercise Price</u>	<u>Number of Options Outstanding</u>	<u>Number of Options Exercisable</u>	<u>Black-Scholes Option Pricing Model Valuation</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>
As at December 31, 2009:				
\$ 0.85	240,595	240,595	\$ 108,339	3.95
\$ 1.00	856,000	856,000	557,768	5.88
\$ 1.34	100,000	-	17,350	2.67
\$ 1.45	80,000	-	28,647	9.61
\$ 1.97	50,000	25,000	30,978	2.81
\$ 2.00	340,000	340,000	335,403	1.84
\$ 2.50	413,632	410,032	784,540	7.48
\$ 4.00	825,000	223,000	1,474,514	8.34
\$ 5.60	50,000	10,000	126,924	8.63
\$ 6.10	62,500	12,500	340,177	8.45
Total	<u>3,017,727</u>	<u>2,117,127</u>	<u>\$ 3,804,640</u>	<u>6.20</u>

The fair value of options granted during the period ended March 31, 2010 was \$2.18 calculated using a risk-free rate of 4.3%, dividend yield of 0%, volatility factor of 84%, and expected life of 3 years. The value of the options was recorded as stock based compensation expense, with an offsetting amount to contributed surplus based on the vesting terms.

(d) Contributed Surplus

The following table summarizes contributed surplus for the three months ended March 31, 2010 and the year ended December 31, 2009:

	<u>Three Months Ended March 31, 2010</u>	<u>Year Ended December 31, 2009</u>
Contributed surplus:		
Balance, beginning of period	\$ 6,098,296	\$ 5,401,361
Stock options exercised and forfeited	(197,580)	-
Stock options amortized and granted	216,634	696,935
Balance, end of period	<u>\$ 6,117,350</u>	<u>\$ 6,098,296</u>

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

6. Commitments and Contingencies

Yemen and Oman

The Corporation has withdrawn from Yemen and is currently negotiating final settlements with contractors. Management is of the opinion that no additional accrual or disclosure is required for any possible settlements.

In November 2009, the Corporation notified the Ministry of Oil and Gas, Sultanate of Oman, that the Corporation was withdrawing from previously signed Exploration and Production Sharing Agreement (“EPSA”) covering Block 55 in Oman where it was the official operator. The Corporation is of the opinion that no additional accrual or disclosure for exit costs is required.

Saskatchewan - Bakken Shale Drilling Commitment

The Corporation entered into an agreement with an unrelated privately held Canadian company on August 28, 2008, whereby the Corporation agreed to pay 100% of the costs to drill a minimum of two horizontal wells in the Bakken shale in order to earn a 50% working interest in acreage controlled by the unrelated private company. During the first quarter of 2010, the Corporation paid \$100,369 (2009: \$2,213,680) for the cost to drill and complete the first of the two aforementioned earning wells. The second well obligation of \$2,400,000 will be partially substituted for a 3D seismic program, which is expected to cost \$1,300,000. The remaining balance after the completion of the 3D seismic program will be committed to the next well, which is expected to be drilled in late 2010.

New York – Trenton-Black River Well Units

During 2006, the Department of Environmental Conservation (“DEC”) classified the Corporation’s interest in several wells drilled prior to a statute change as an integrated non-participating owner. As a result, the Corporation was charged a non-consent penalty (300% of 100% of the total drilling and completion costs) on its pro-rata share of costs to drill and complete various wells by Fortuna Energy Inc., the operator. The Corporation believes its interest in the subject wells should have been classified as an integrated participating owner upon payment of its pro-rata share of costs, effectively negating the non-consent penalty the operator could charge prior to disbursing the Corporation’s pro-rata share of profits. The Corporation formally appealed the DEC’s ruling, and, if successful, will require the non-consent penalty withheld by the operator to be disbursed to the Corporation. As a result, there is no anticipated effect on the Corporation’s established working interest. As a non-operator, the Corporation is not liable to make any non-consent payments.

Due to this contingency, there were no amounts initially recorded on the Corporation’s consolidated financial statements prior to payout. In the case where payout has occurred, the Corporation recorded its share of costs and revenues on a prospective basis beginning with the month that each well had been determined to have achieved payout. As at March 31, 2010, the Corporation was classified as an integrated non-participating owner in 7 gross (0.10 net) wells, including 3 gross (0.06 net) for which the non-consent penalty had been paid out. In 2009 the Corporation received a favorable decision on its F. Andrews well appeal from the NY DEC commissioner. The decision was not appealed by Fortuna Energy Inc. and the Corporation is currently awaiting final settlement numbers. This decision will result in reimbursement of the non-consent penalty charged to the Corporation for that well. There has been no decision issued for the remaining wells that the Corporation has appealed.

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

6. Commitments and Contingencies (continued)

Ethiopia

On May 14, 2009, the Corporation announced that it had signed a Production Sharing Agreement (“PSA”) with the Ministry of Mines and Energy in Democratic Republic of Ethiopia. Terms of the PSA include an initial three-year exploration period that includes a minimum financial commitment of \$3,000,000 to drill one exploratory well and to acquire a minimum of 200 kilometers of 2D seismic. In the event the Corporation makes a commercial discovery, the initial percentage split of profit oil and/or gas will be 80% for the Corporation and 20% for the Ministry. Through March 31, 2010, the Corporation had incurred \$2,097,774 under the terms of this agreement mainly for a high resolution airborne gravity and magnetic survey.

The Corporation’s future commitments are summarized in the following table:

	Payments Due by Period			
	Total	Less than 1 Year	1 – 3 Years	4 Years and After
Future Commitments:				
Accounts payable and accrued liabilities	\$ 3,657,683	\$ 3,650,005	\$ 7,678	\$ -
Operating leases	247,535	76,165	152,329	19,041
Purchase obligations - Bakken	2,383,000	2,383,000	-	-
Other long-term obligations - Ethiopia	3,398,690	159,345	3,239,345	-
Total future commitments	\$ 9,686,908	\$ 6,268,515	\$ 3,399,352	\$ 19,041

7. Financial Instruments

Risk Management

The Corporation has the following risks related to financial assets and liabilities:

- ***Liquidity Risk***
- ***Commodity Price Risk***
- ***Interest Rate Risk***
- ***Foreign Currency Risk***
- ***Credit Risk***

There have been no significant changes to objectives, policies or risks that the Corporation is subject to since December 31, 2009.

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

8. Related Party Transactions

The Corporation reports its related party transactions on an exchange amount basis in equivalent US dollars. A summary of such transactions follows:

Executive Chairman

The Corporation utilizes administrative services provided by 706147 Ontario, Inc., a company owned by the Executive Chairman's spouse. The Corporation utilizes consultation services provided by Capital Z Corporation, a company owned by the Executive Chairman and the Corporation shares office space with Capital Z Corporation at no charge. The Executive Chairman is the Chairman and CEO of Rockefeller Hughes, a company that rents office space from the Corporation. A summary of related party transactions between the Corporation and its Executive Chairman follows.

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
706147 Ontario, Inc.	\$ 11,277	\$ 48,618
Capital Z Corporation	3,213	2,181
Rockefeller Hughes	(4,800)	-
Accounts payable	4,657	-

Director

On February 7, 2007, the Corporation obtained a 25% undivided participating interest in Gastem Inc.'s undeveloped oil and natural gas interests covering approximately 1,184,000 acres (249,000 net) in the St. Lawrence Lowlands and in the Gaspé Peninsula of Quebec. Under terms of the agreement, the Corporation may elect to participate on a well-by-well basis with a 25% working interest in any current or future oil and natural gas property Gastem Inc. may acquire in Quebec. Raymond Savoie, Gastem Inc.'s President became a director of the Corporation on July 16, 2007. A summary of related party transactions between the Corporation and Gastem Inc. follows.

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
Gastem Inc.:		
Joint venture costs	\$ 50	\$ 341,164
Joint venture revenues	-	111,502
Accounts payable	6,869	296,678
Proceeds from sale of assets	-	779,802

Former Director, President and CEO

Austin Exploration LLC, a company owned by a former Director, President and CEO of the Corporation, was also a participant in the Corporation's Empire project. Western Land Services Inc., a company owned by the same person, provides oil and natural gas lease brokerage services to the Corporation in accordance with a Project Services Agreement between Western Land Services and the Corporation. Under terms of the Project Services Agreement, Western Land Services agreed to provide services to the Corporation at its lowest corporate rates less 10%. Related party transactions with the former Director were conducted in US dollars. A summary of related party transactions follows.

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

8. Related Party Transactions (continued)

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
Austin Exploration LLC:		
Accounts receivable	\$ 94,889	\$ 36,819
Joint venture costs	\$ 394,158	\$ 408,873
Joint venture revenues	\$ 60,934	\$ 563,835
Western Land Services:		
Lease brokerage services	\$ 98,751	\$ 440,092
Accounts payable	\$ 62,204	\$ 86,320

9. Reportable Geographical Segments

As at March 31, 2010, the Corporation's operations by geographical area included the United States, Canada and Ethiopia. See Note 3 "Property and Equipment". Summarized reportable geographical segment data follows:

	Periods Ended March 31,	
Reportable Segments:	2010	2009
United States:		
Revenues	\$ 3,983,261	\$ 1,707,517
Operating costs	428,404	467,249
Capital expenditures	1,350,380	7,064,560
Canada:		
Revenues	12,863	-
Operating costs	(1,628)	-
Capital expenditures	100,419	9,754
Yemen:		
Revenues	-	-
Operating costs	-	-
Capital expenditures	-	1,872,617
Ethiopia:		
Revenues	-	-
Operating costs	-	-
Capital expenditures	3,737	(414,294)
Other International:		
Revenues	-	-
Operating costs	-	-
Capital expenditures	11,306	2,651,732
Total Reportable Segments		
Revenues	\$ 3,996,124	\$ 1,707,517
Operating costs	\$ 426,776	\$ 467,249
Capital expenditures	\$ 1,465,842	\$ 11,184,369

Epsilon Energy Ltd.
Notes to the Unaudited Interim Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009

10. Capital Disclosures

The Corporation as at March 31, 2010 defines its capital as follows:

- Cash
- Restricted cash
- Shareholders' equity

The amounts included in the Corporation's capital are as follows:

	March 31, 2010	December 31, 2009
Capital:		
Cash and short-term investments	\$ 21,016,241	\$ 15,288,547
Restricted cash	\$ 687,050	\$ 732,240
Shareholders' equity	\$ 81,706,190	\$ 80,706,043

The Corporation's strategy is designed and formulated to maintain a flexible capital structure to allow the Corporation the ability to respond to changes in economic conditions, additional capital requirements, and the risk characteristics of the underlying assets of the Corporation. The Corporation considers the cash flows from the underlying assets and future capital needs when assessing the need for additional capital, if any. Depending on future liquidity requirements, the Corporation may invest its excess cash in short or long-term financial instruments.

11. Subsequent Events

Buy Back of Common Shares

On April 20, 2010, the Corporation signed an agreement with a former director and officer to purchase 1,000,000 or approximately 2% of the 50,625,998 common shares that were then issued and outstanding for \$2,500,000 or \$2.50 per share. The shares purchased by Epsilon were canceled. The purchase and cancellation was made as an exempt issuer bid pursuant to section 4.7 Multilateral Instrument 62-104 Take-Over Bids and Issuer Bids ("**MI 62-104**"). The price per share was calculated to comply with the requirements of section 1.11 of MI 62-104.

12. Comparative Information

Certain comparative figures have been reclassified from financial statements previously presented to conform to the current presentation.