



## **Statement of Reserves Data and Other Oil and Gas Information on December 31, 2008**

**Dated April 1, 2009**

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**Epsilon Energy Ltd.**  
**Form 51-101F1**  
**As at December 31, 2008**  
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## EPSILON ENERGY LTD.

### 1. DEFINITIONS

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Epsilon Energy Ltd. (the “Corporation” or “Epsilon”) is 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 oil and natural gas reserves in the Republic of Yemen (“Yemen”), Sultanate of Oman (“Oman”), United States, Canada and the Federal Democratic Republic of Ethiopia (“Ethiopia”). The contents of this report include properties collectively owned by the Corporation and its wholly owned subsidiaries.

#### Monetary References

All monetary references contained in this Statement of Reserves Data and Other Oil and Gas Information are in US dollars unless otherwise specified.

#### Abbreviations and Equivalencies

The following are abbreviations and definitions of terms used in this Statement of Reserves Data and Other Oil and Gas Information:

<b>Crude Oil and Natural Gas Liquids</b>		<b>Natural Gas</b>	
Bbl	one barrel equaling 42 U.S. gallons	Bcf	billion cubic feet
Bpd	barrels per day	Mcf	thousand cubic feet
Boe	barrels of oil equivalent	Mcfpd	thousand cubic feet per day
Boepd	barrels of oil equivalent per day	MMcf	million cubic feet
Mboe	thousand barrels of oil equivalent	MMcfpd	million cubic feet per day
Mbbl	thousand barrels	MMBtu	million British Thermal Units
MMbbl	million barrels	Mcfe	thousand cubic feet of gas equivalent
NGL or NGLs	natural gas liquids, consisting of any one or more of propane, butane and condensate	MMcfe	million cubic feet of gas equivalent
<b>Financial</b>			
M\$	thousands of dollars (USD)		
MM\$	millions of dollars (USD)		

References to oil, gas, natural gas liquids, reserves (gross, net, proved, developed, developed producing, developed non-producing, undeveloped), constant prices and costs, operating costs, development costs, future net revenue and future income tax expenses shall, unless expressly stated to be the contrary, have the meaning attributed to such terms as set out in NI 51-101, Companion Policy 51-101 CP and all forms referenced therein. Figures herein may not add up due to rounding-off in computer generated runs.

## 2. INTRODUCTION

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### Statement of Reserve Data and Other Oil and Gas Information

The following Statement of Reserves Data and Other Oil and Gas Information for the Corporation was prepared as of April 1, 2009 with an Effective Date of December 31, 2008.

McDaniel & Associates Consultants Ltd. (“McDaniel”) has prepared a reserve report dated March 16, 2009 with an effective date of December 31, 2008 (the “McDaniel Report”) which evaluates the oil reserves attributable to the Corporation’s interests in its Yemen properties and net present value of estimated future cash flow from such reserves, based on forecast price and cost assumptions. The reserves information contained in the McDaniel Report was prepared and is presented in accordance with the requirements of NI 51-101.

Schlumberger Data and Consulting Services (“DCS”) has prepared a reserve report dated February 23, 2009 with an effective date of December 31, 2008 (the “DCS Report”) which evaluates the natural gas reserves attributable to the Corporation’s interests in its United States properties and net present value of estimated future cash flow from such reserves, based on forecast price and cost assumptions. The reserves information contained in the DCS Report was prepared and is presented in accordance with the requirements of NI 51-101.

Additional information not required by NI 51-101 has been presented to provide continuity and additional information which the Corporation believes is important to the readers of this information.

**It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the Corporation’s reserves. There is no assurance that the constant prices and costs assumptions and forecast prices and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas reserves may be greater than or less than the estimates provided herein.**

**In accordance with the requirements of NI 51-101, the Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 are attached as Appendices A and B hereto, respectively.**

### 3. RESERVE DATA

#### Oil and Gas Reserve Volumes

Summaries of reserves and net present values of future net revenues as shown in the tables below are based on forecast prices and costs, which are outlined below.

#### Total Oil and Gas Reserve Volumes

<b>Reserves Category</b>	<b>Light and Medium Oil</b>		<b>Natural Gas</b>		<b>Natural Gas Liquids</b>	
	<b>Gross<sup>(1)</sup> (Mbbbl)</b>	<b>Net<sup>(1)</sup> (Mbbbl)</b>	<b>Gross (MMcf)</b>	<b>Net (MMcf)</b>	<b>Gross (Mbbbl)</b>	<b>Net (Mbbbl)</b>
Proved Developed Producing	1	1	29,386	6,709	-	-
Proved Non-Producing	-	-	8,320	4,683	-	-
Proved Undeveloped	938	680	7,499	4,580	-	-
<b>Total Proved</b>	<b>939</b>	<b>681</b>	<b>45,205</b>	<b>15,972</b>	<b>-</b>	<b>-</b>
Probable	3,925	1,969	20,910	13,703	-	-
<b>Total Proved Plus Probable</b>	<b>4,864</b>	<b>2,650</b>	<b>66,114</b>	<b>29,675</b>	<b>-</b>	<b>-</b>

Notes:

- (1) In Yemen, gross reserves are based on Epsilon's working interest share of the reserves and net reserves are based on Epsilon's share of total cost and profit revenues.

#### Yemen Oil and Gas Reserve Volumes

<b>Reserves Category</b>	<b>Light and Medium Oil</b>		<b>Natural Gas</b>		<b>Natural Gas Liquids</b>	
	<b>Gross<sup>(1)</sup> (Mbbbl)</b>	<b>Net<sup>(1)</sup> (Mbbbl)</b>	<b>Gross (MMcf)</b>	<b>Net (MMcf)</b>	<b>Gross (Mbbbl)</b>	<b>Net (Mbbbl)</b>
Proved Developed Producing	-	-	-	-	-	-
Proved Non-Producing	-	-	-	-	-	-
Proved Undeveloped	938	680	-	-	-	-
<b>Total Proved</b>	<b>938</b>	<b>680</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Probable	3,925	1,969	-	-	-	-
<b>Total Proved Plus Probable</b>	<b>4,863</b>	<b>2,649</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### United States Oil and Gas Reserve Volumes

<b>Reserves Category</b>	<b>Light and Medium Oil</b>		<b>Natural Gas</b>		<b>Natural Gas Liquids</b>	
	<b>Gross<sup>(1)</sup> (Mbbbl)</b>	<b>Net<sup>(1)</sup> (Mbbbl)</b>	<b>Gross (MMcf)</b>	<b>Net (MMcf)</b>	<b>Gross (Mbbbl)</b>	<b>Net (Mbbbl)</b>
Proved Developed Producing	1	1	29,386	6,709	-	-
Proved Non-Producing	-	-	8,320	4,683	-	-
Proved Undeveloped	-	-	7,499	4,580	-	-
<b>Total Proved</b>	<b>1</b>	<b>1</b>	<b>45,205</b>	<b>15,972</b>	<b>-</b>	<b>-</b>
Probable	-	-	20,909	13,703	-	-
<b>Total Proved Plus Probable</b>	<b>1</b>	<b>1</b>	<b>66,114</b>	<b>29,675</b>	<b>-</b>	<b>-</b>

## Discounted Net Present Values of Future Net Revenues

### Total Discounted Net Present Values of Future Net Revenues (\$000s)

Reserves Category	Before Income Taxes Discounted at (% /year)					After Income Taxes Discounted at (% /year)					Unit Value Before Income Tax Disc. at 10% (\$ per Mcf)
	0	5	10	15	20	0	5	10	15	20	
	<b>Proved:</b>										
Producing	\$ 58,741	\$ 29,096	\$ 19,515	\$ 15,023	\$ 12,420	\$ 39,543	\$ 19,781	\$ 13,410	\$ 10,381	\$ 8,601	\$ 2.91
Non-prod	44,773	23,564	16,127	12,421	10,168	29,550	15,463	10,579	8,134	6,643	3.44
Undeveloped	61,217	35,597	25,289	19,473	15,580	49,434	30,959	23,026	18,261	14,936	2.92
<b>Total Proved</b>	<b>164,731</b>	<b>88,257</b>	<b>60,931</b>	<b>46,917</b>	<b>38,168</b>	<b>118,527</b>	<b>66,203</b>	<b>47,015</b>	<b>36,776</b>	<b>30,180</b>	<b>3.04</b>
Probable	228,344	129,087	90,339	69,127	55,419	192,803	117,177	85,070	66,351	53,801	3.54
<b>Total Proved + Probable</b>	<b>\$ 393,075</b>	<b>\$ 217,344</b>	<b>\$ 151,270</b>	<b>\$ 116,044</b>	<b>\$ 93,587</b>	<b>\$ 311,330</b>	<b>\$ 183,380</b>	<b>\$ 132,085</b>	<b>\$ 103,127</b>	<b>\$ 83,981</b>	<b>\$ 3.32</b>

### Yemen Discounted Net Present Values of Future Net Revenues (\$000s)

Reserves Category	Before Income Taxes Discounted at (% /year)					After Income Taxes Discounted at (% /year) <sup>(1)</sup>					Unit Value Before Income Tax Disc. at 10% (\$ per Bbl)
	0	5	10	15	20	0	5	10	15	20	
	<b>Proved:</b>										
Producing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-prod	-	-	-	-	-	-	-	-	-	-	-
Undeveloped	26,559	22,665	19,563	17,052	14,991	26,559	22,665	19,563	17,052	14,991	28.77
<b>Total Proved</b>	<b>26,559</b>	<b>22,665</b>	<b>19,563</b>	<b>17,052</b>	<b>14,991</b>	<b>26,559</b>	<b>22,665</b>	<b>19,563</b>	<b>17,052</b>	<b>14,991</b>	<b>28.77</b>
Probable	123,811	96,193	77,181	63,528	53,369	123,811	96,193	77,181	63,528	53,369	39.20
<b>Total Proved + Probable</b>	<b>\$ 150,370</b>	<b>\$ 118,858</b>	<b>\$ 96,744</b>	<b>\$ 80,580</b>	<b>\$ 68,360</b>	<b>\$ 150,370</b>	<b>\$ 118,858</b>	<b>\$ 96,744</b>	<b>\$ 80,580</b>	<b>\$ 68,360</b>	<b>\$ 36.52</b>

Notes: (1) Under terms of the Block 41 PSA, Epsilon will not be subject to any income taxes in Yemen.

### United States Discounted Net Present Values of Future Net Revenues (\$000s)

Reserves Category	Before Income Taxes Discounted at (% /year)					After Income Taxes Discounted at (% /year)					Unit Value Before Income Tax Disc. at 10% (\$ per Mcf)
	0	5	10	15	20	0	5	10	15	20	
	<b>Proved:</b>										
Producing	\$ 58,741	\$ 29,096	\$ 19,515	\$ 15,023	\$ 12,420	\$ 39,543	\$ 19,781	\$ 13,410	\$ 10,381	\$ 8,601	\$ 2.91
Non-prod	44,773	23,564	16,127	12,421	10,168	29,550	15,463	10,579	8,134	6,643	3.44
Undeveloped	34,658	12,932	5,726	2,421	589	22,875	8,294	3,463	1,209	(55)	1.25
<b>Total Proved</b>	<b>138,172</b>	<b>65,592</b>	<b>41,368</b>	<b>29,865</b>	<b>23,177</b>	<b>91,968</b>	<b>43,538</b>	<b>27,452</b>	<b>19,724</b>	<b>15,189</b>	<b>2.59</b>
Probable	104,533	32,894	13,158	5,599	2,050	68,992	20,984	7,889	2,823	432	0.96
<b>Total Proved + Probable</b>	<b>\$ 242,705</b>	<b>\$ 98,486</b>	<b>\$ 54,526</b>	<b>\$ 35,464</b>	<b>\$ 25,227</b>	<b>\$ 160,960</b>	<b>\$ 64,522</b>	<b>\$ 35,341</b>	<b>\$ 22,547</b>	<b>\$ 15,621</b>	<b>\$ 1.84</b>

## Discounted Future Net Revenues

### Total Discounted Future Net Revenues (\$000'S)

Reserves Category	Net Revenue <sup>(1)</sup>	Operating Costs <sup>(2)</sup>	Development Costs	Abandonment and Reclamation Costs <sup>(3)</sup>	Other Costs <sup>(4)</sup>	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved Producing	\$ 101,814	\$ 41,263	\$ 124	\$ 1,685	\$ -	\$ 58,742	\$ 19,199	\$ 39,543
Proved Non-Producing	62,343	14,204	2,974	392	-	44,773	15,223	29,550
Proved Undeveloped	118,743	34,836	19,851	729	2,109	61,218	11,784	49,434
<b>Total Proved</b>	<b>282,900</b>	<b>90,303</b>	<b>22,949</b>	<b>2,806</b>	<b>2,109</b>	<b>164,733</b>	<b>46,206</b>	<b>118,527</b>
Probable	391,118	104,418	53,877	2,885	1,594	228,344	35,541	192,803
<b>Total Proved and Probable</b>	<b>\$ 674,018</b>	<b>\$ 194,721</b>	<b>\$ 76,826</b>	<b>\$ 5,691</b>	<b>\$ 3,703</b>	<b>\$ 393,077</b>	<b>\$ 81,747</b>	<b>\$ 311,330</b>

Notes:

- (1) Revenue after all royalty deductions.
- (2) Including net severance and Ad Valorem Taxes.
- (3) Costs escalated 2% - average well life 65 years for natural gas wells.
- (4) Includes the Corporation's share of bonus and exploration tax.

### Yemen Discounted Future Net Revenues (\$000'S)

Reserves Category	Net Revenue <sup>(1)</sup>	Operating Costs	Development Costs <sup>(2)</sup>	Abandonment and Reclamation Costs	Other Costs <sup>(4)</sup>	Future Net Revenue Before Income Taxes	Income Taxes <sup>(3)</sup>	Future Net Revenue After Income Taxes
Proved Producing	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -
Proved Non-Producing	-	-	-	-	-	-	-	-
Proved Undeveloped	53,260	15,946	8,594	52	2,109	26,559	-	26,559
<b>Total Proved</b>	<b>53,260</b>	<b>15,946</b>	<b>8,594</b>	<b>52</b>	<b>2,109</b>	<b>26,559</b>	<b>-</b>	<b>26,559</b>
Probable	174,514	30,228	18,775	106	1,594	123,811	-	123,811
<b>Total Proved and Probable</b>	<b>\$ 227,774</b>	<b>\$ 46,174</b>	<b>\$ 27,369</b>	<b>\$ 158</b>	<b>\$ 3,703</b>	<b>\$ 150,370</b>	<b>\$ -</b>	<b>\$ 150,370</b>

Notes:

- (1) Includes Epsilon's share of production revenues and cost recoveries.
- (2) Includes Epsilon's share of drilling, completion, facility, pipeline, bonus, exploration tax and an allocated share of OGMC farm-in costs.
- (3) Under terms of the Block 41 PSA, Epsilon will not be subject to any income taxes in Yemen.
- (4) Includes the Corporation's share of bonus and exploration tax.

### United States Discounted Future Net Revenues (\$000'S)

Reserves Category	Net Revenue <sup>(1)</sup>	Operating Costs <sup>(2)</sup>	Development Costs <sup>(3)</sup>	Abandonment and Reclamation Costs <sup>(3)</sup>	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved Producing	\$ 101,814	\$ 41,263	\$ 124	\$ 1,685	\$ 58,742	\$ 19,199	\$ 39,543
Proved Non-Producing	62,343	14,204	2,974	392	44,773	15,223	29,550
Proved Undeveloped	65,483	18,890	11,257	677	34,659	11,784	22,875
<b>Total Proved</b>	<b>229,640</b>	<b>74,357</b>	<b>14,355</b>	<b>2,754</b>	<b>138,174</b>	<b>46,206</b>	<b>91,968</b>
Probable	216,604	74,190	35,102	2,779	104,533	35,541	68,992
<b>Total Proved and Probable</b>	<b>\$ 446,244</b>	<b>\$ 148,547</b>	<b>\$ 49,457</b>	<b>\$ 5,533</b>	<b>\$ 242,707</b>	<b>\$ 81,747</b>	<b>\$ 160,960</b>

Notes:

- (1) Revenue after all royalty deductions.
- (2) Including net severance and Ad Valorem Taxes.
- (3) Costs escalated 2% - average well life 65 years for natural gas wells.

**Discounted Net Present Values of Future Net Reserves by Production Group at 10%**

**Total Discounted Net Present Values of Future Net Revenues at 10%  
by Production Group (\$000s)**

<u>Reservers Category</u>	<u>Production Group</u>	<u>Future Net Revenue Before Income Taxes (discounted at 10% /year) (\$000's)</u>	
<b>Proved Reserves</b>	Light and Medium Crude Oil	\$	19,570
	Natural Gas	\$	41,362
<b>Probable Reserves</b>	Light and Medium Crude Oil	\$	77,181
	Natural Gas	\$	13,158
<b>Proved Plus Probable Reserves</b>	Light and Medium Crude Oil	\$	96,751
	Natural Gas	\$	54,520
<b>Proved Plus Probable Total</b>		<b>\$</b>	<b>151,271</b>

**Yemen Net Present Values of Future Net Revenues at 10%  
by Production Group (\$000s)**

<u>Reservers Category</u>	<u>Production Group</u>	<u>Future Net Revenue Before Income Taxes (discounted at 10% /year) (\$000's)</u>	
<b>Proved Reserves</b>	Light and Medium Crude Oil	\$	19,563
	Natural Gas	\$	-
<b>Probable Reserves</b>	Light and Medium Crude Oil	\$	77,181
	Natural Gas	\$	-
<b>Proved Plus Probable Reserves</b>	Light and Medium Crude Oil	\$	96,744
	Natural Gas	\$	-
<b>Proved Plus Probable Total</b>		<b>\$</b>	<b>96,744</b>

**United States Discounted Net Present Values of Future Net Revenues at 10%  
by Production Group (\$000s)**

<u>Reservers Category</u>	<u>Production Group</u>	<u>Future Net Revenue Before Income Taxes (discounted at 10% /year) (\$000's)</u>	
<b>Proved Reserves</b>	Light and Medium Crude Oil	\$	7
	Natural Gas	\$	41,362
<b>Probable Reserves</b>	Light and Medium Crude Oil	\$	-
	Natural Gas	\$	13,158
<b>Proved Plus Probable Reserves</b>	Light and Medium Crude Oil	\$	7
	Natural Gas	\$	54,520
<b>Proved Plus Probable Total</b>		<b>\$</b>	<b>54,527</b>

## Pricing and Inflation Rate Assumptions

The forecast cost and price assumptions assume the continuance of current laws and regulations, and take into account inflation with respect to future operating capital costs. If not otherwise stated, operating costs are assumed to escalate at 2% per annum. The oil base case price forecast by McDaniel for Yemen utilized the Brent Crude index as a benchmark. The oil and natural gas base case prices as forecast by Schlumberger for the United States utilized the McDaniel & Associates forecast pricing index published as of January 1, 2009 as a benchmark. Commodity prices and inflation rate assumptions follow:

### Commodity Price and Inflation Rate Assumptions

Year	Yemen	United States	
	Crude Oil (\$/Bbl)	Crude Oil (\$/Bbl)	Natural Gas (\$/MMbtu)
2009	\$ 58.00	\$ 60.00	\$ 7.25
2010	\$ 69.39	\$ 71.40	\$ 7.75
2011	\$ 81.08	\$ 83.20	\$ 8.60
2012	\$ 88.07	\$ 90.20	\$ 9.35
2013	\$ 95.03	\$ 97.40	\$ 10.10
2014	\$ 97.15	\$ 99.40	\$ 10.30
2015	\$ 99.14	\$ 101.40	\$ 10.50
2016	\$ 101.13	\$ 103.40	\$ 10.70
2017	\$ 103.01	\$ 105.40	\$ 10.90
2018	\$ 105.20	\$ 107.60	\$ 11.15
2019	\$ 107.29	\$ 109.70	\$ 11.35
2020	\$ 109.38	\$ 111.90	\$ 11.60
2021	\$ 111.57	\$ 114.10	\$ 11.80
2022	\$ 113.85	\$ 116.40	\$ 12.05
2023	\$ 116.14	\$ 118.80	\$ 12.30
2024	\$ 118.46	2% escalation	2% escalation
2025	\$ 120.83	2% escalation	2% escalation
2026	\$ 123.25	2% escalation	2% escalation
2027	\$ 125.71	2% escalation	2% escalation
2028	\$ 128.23	2% escalation	2% escalation
Thereafter	2% escalation	2% escalation	2% escalation

## Historical Prices

There was no oil production from Yemen during 2008. The weighted average gas price received pertaining to United States natural gas production during 2008 was \$86.98 per Bbl of crude oil and \$9.30 per Mcf of natural gas.

**Notes:**

- (1) Columns may not add due to rounding.
- (2) "**Gross**" means the Corporation's total working interest and/or royalty interest share before royalties owned by others.
- (3) "**Net**" when referred to in the McDaniel Reserve Report, means net reserves based on Epsilon's share of total cost and profit revenues. "**Net**" when referred to in the Schlumberger Report means Epsilon's total working interest and/or royalty interest share after deducting the amounts attributable to royalties owned by others.
- (4) "**Reserves**" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.
- (5) "**Proved Reserves**" are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves. At least a 90% probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves is the targeted level of certainty.
- (6) "**Developed Producing Reserves**" are those Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (7) "**Developed Non-Producing Reserves**" are those Reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (8) "**Proved Developed Reserves**" are those Reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the Reserves on production. The developed category may be subdivided into producing and non-producing.
- (9) "**Undeveloped Reserves**" are those Reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the Reserves classification (proved, probable, possible) to which they are assigned.
- (10) "**Probable Reserves**" are those additional Reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable Reserves. At least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves is the targeted level of certainty.
- (11) "**Possible Reserves**" are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves. At least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.
- (12) "**Royalties**" refers to royalties paid to others. The royalties deducted from the reserves are based on the percentage royalty calculated by applying the applicable royalty rate or formula.

#### 4. RECONCILIATIONS OF CHANGES IN RESERVES

##### Summary Reconciliation of Gross Reserves by Production Type

A reconciliation of year-on-year estimated oil and natural gas reserve volumes follows:

Category	Republic of Yemen					
	Oil (Mbbl)			Natural Gas (MMcf)		
	Proved	Probable	Total	Proved	Probable	Total
<b>Balance, 12/31/07</b>	937	3,765	4,702	-	-	-
Improved Recovery	-	-	-	-	-	-
Technical Revisions	1	160	161	-	-	-
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	-	-	-	-	-	-
Production	-	-	-	-	-	-
<b>Balance, 12/31/08</b>	<b>938</b>	<b>3,925</b>	<b>4,863</b>	-	-	-
Category	United States					
	Oil (Mbbl)			Natural Gas (MMcf)		
	Proved	Probable	Total	Proved	Probable	Total
<b>Balance, 12/31/07</b>	-	-	-	37,900	43,109	81,009
Improved Recovery	-	-	-	-	-	-
Technical Revisions	2	-	2	-	-	-
Discoveries	-	-	-	13,313	6,244	19,557
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	-	-	-	(5,259)	(28,443)	(33,703)
Production	(1)	-	(1)	(749)	-	(749)
<b>Balance, 12/31/08</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>45,205</b>	<b>20,910</b>	<b>66,114</b>

In Yemen, the Corporation's oil reserves pertained solely to the acquisition of proved undeveloped reserves relating to the Corporation's acquisition of a 57.14% working interest in Block 41 in Yemen during 2007. There was no oil production from the Yemen during 2008 or 2007. See "Proved Oil and Gas Properties – Yemen".

In the United States, the Corporation discovered approximately 19.5 Bcf of proved and probable natural gas reserves, consisting of 13.7 Bcf (7.5 Bcf proved and 6.2 Bcf probable) on its Highway 706 project in Pennsylvania and 5.9 Bcf in New York. Negative economic factors, primarily changes in commodity prices, resulted in a reduction of approximately 33.7 Bcf (5.3 Bcf proved reserves and 28.4 Bcf for probable reserves), primarily pertaining to the Corporation's West Virginia assets, as compared to 2007 amounts.

## 5. ADDITIONAL INFORMATION

### Undeveloped Reserves

In general, once proved and/or probable undeveloped reserves are identified they are integrated into the Corporation's development plans. The Corporation's business plan generally envisions the development of proved and probable undeveloped reserves within two years of the date of such integration. A summary of gross and net undeveloped reserves as of December 31, 2008, 2007 and 2006, respectively, follows:

#### Undeveloped Reserves

	<b>Company Gross Undeveloped Reserves</b>			
	<b>Republic of Yemen (Mbbl)</b>		<b>United States (MMcf)<sup>(1)</sup></b>	
	<b>1st Attributed</b>	<b>Booked</b>	<b>1st Attributed</b>	<b>Booked</b>
<b>Proved Undeveloped</b>				
Prior to 2006	-	-	-	-
2006	-	-	19,428	19,428
2007	937	937	-	13,992
2008	-	938	6,592	7,499
<b>Probable Undeveloped</b>				
Prior to 2006	-	-	-	-
2006	-	-	45,383	45,383
2007	3,765	3,765	-	43,109
2008	-	3,925	5,463	20,910
<b>Proved and Probable Undeveloped</b>				
Prior to 2006	-	-	-	-
2006	-	-	64,811	64,811
2007	4,702	4,702	-	57,101
2008	-	4,862	12,055	28,409

Notes:

- (1) 1<sup>st</sup> attributed amounts apply to the Corporation's Marcellus shale holdings in Pennsylvania and New York.

### Significant Factors and Uncertainties

The process of estimating oil and gas reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas processing and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data become available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions, availability of required services, weather and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can rise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative. The reserve estimates of the Corporation's natural gas reserves provided in this Statement of Reserves Data and Other Oil and Gas Information are estimates only and there is no assurance or guarantee that the estimated reserves will be recovered. Actual

reserves may be greater or less than the estimates provided herein.

2008 resulted in one of the most volatile years in the oil and natural gas industry. Commodity prices for oil and gas reached all time highs and then dipped to multi-year lows. In the last half of 2008, global capital markets tightened and retrenched dramatically. The downward trend in the capital and commodity markets resulted in many oil and natural gas companies reducing their capital budgets substantially due to the reduced availability of capital and reduced economic returns resulting from lower commodity prices. Accordingly, there can be no assurance that the Corporation can successfully raise enough capital to fund its future capital needs outside of its existing available capital at terms acceptable to the Corporation.

Historically, the Corporation has relied on proceeds from the sale of its Common Shares to fund its operations. In order to fully fund or accelerate the Corporation's current planned acquisition, exploration and development activities beyond 2009, the Corporation will need additional capital. The timing, pace, scope and amount of the Corporation's capital expenditures is largely dependent on the availability of capital. The Corporation may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional Common Shares, preferred shares or debt securities, project financing, sale of partial property interests, or other arrangements, all of which may dilute the interest of the Corporation's existing shareholders or the Corporation's interest in the specific project financed. The Corporation may change the allocation of capital among the categories of anticipated expenditures depending upon future events that the Corporation cannot predict. For example, the Corporation may change the allocation of its expenditures based on the actual results and costs of future exploration, appraisal, development, production, property acquisition and other activities. In addition, the Corporation may have to change its anticipated expenditures if costs of placing any particular discovery into production are higher, if the field is smaller or if the commencement of production takes longer than expected.

#### Future Development Costs

The table below sets out the development costs deducted in the estimation of future net revenues attributable to reserves categories noted below (\$000's):

#### Total Future Development Costs

<b>Year</b>	<b>Proved</b>	<b>Probable</b>	<b>Total</b>
<b>2009</b>	\$ 11,095	\$ 11,638	\$ 22,733
<b>2010</b>	11,000	17,283	28,283
<b>2011</b>	765	3,885	4,650
<b>2012</b>	-	4,224	4,224
<b>2013</b>	-	2,372	2,372
<b>Thereafter</b>	90	14,474	14,564
<b>Total</b>	<b>\$ 22,950</b>	<b>\$ 53,876</b>	<b>\$ 76,826</b>

#### Yemen Future Development Costs

<b>Year</b>	<b>Proved</b>	<b>Probable</b>	<b>Total</b>
<b>2009</b>	\$ 6,194	\$ 6,913	\$ 13,107
<b>2010</b>	1,913	9,283	11,196
<b>2011</b>	488	1,030	1,518
<b>2012</b>	-	1,548	1,548
<b>2013</b>	-	-	-
<b>Thereafter</b>	-	-	-
<b>Total</b>	<b>\$ 8,595</b>	<b>\$ 18,774</b>	<b>\$ 27,369</b>

### United States Development Costs

Year	Proved	Probable	Total
2009	\$ 4,901	\$ 4,725	\$ 9,626
2010	9,087	8,000	17,087
2011	277	2,855	3,132
2012	-	2,676	2,676
2013	-	2,372	2,372
Thereafter	90	14,474	14,564
<b>Total</b>	<b>\$ 14,355</b>	<b>\$ 35,102</b>	<b>\$ 49,457</b>

The Corporation expects to utilize a combination of its existing capital resources, future internally generated cash flows, and additional third party financing to fund the future development costs disclosed above. Third party financing includes, but is not limited to, debt financing, sale of the Corporation's Common Shares or the full or partial sale of a property interest.

## OTHER OIL AND GAS INFORMATION

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### Proved Oil and Gas Properties

The following is a summary of the Corporation's oil and gas properties which contain proved reserves:

#### Yemen

##### *Block 41 Production Sharing Agreement*

During 2007, the Corporation acquired a 57.14% paying interest and 50% undivided percentage interest in the rights, duties, interests and obligations under the Block 41 Participating Interest covering approximately 5,600 square kilometers (1.4 million acres), which is located onshore in Yemen. The Corporation is the operator of Block 41. There is one field discovery, the Al Waya 1, which was drilled by the prior operator in 2002 and tested at 473 barrels per day ("bbls/d") of 34° API gravity oil from the Naifa formation and had significant shows in lower formations. In addition, approximately 700 kilometers of 2D seismic has been shot over the Block 41 PSA area.

##### *2008 Operations*

##### *Al Waya 2*

On October 21, 2008, the Corporation announced that the Al Waya 2 will be abandoned after encountering mechanical issues (multiple losses of circulation and damaged bottom hole assembly) while attempting to drill through a faulted and/or fractured zone during side-tracking operations. The side-track was drilled to a depth of approximately 1,478 meters and did not test the targeted Naifa zone. The initial well bore in the Al Waya 2 was also abandoned after testing revealed the zones of interest to be wet, despite having encouraging oil and gas shows while drilling. Total costs for this well as of December 31, 2008 was \$4,615,000 gross (\$2,637,000 net).

##### *Kaninah #1*

On January 9, 2009, the Corporation announced that the Kaninah #1 will be plugged and abandoned after testing operations failed to yield commercial results. The complex geology that was encountered while drilling caused difficulty during both the completion and testing phases of this well. Although drilling logs showed zones with an extensive presence of hydrocarbons, actual testing results failed to confirm commercial flows. Despite these inconclusive results, potential still exists for future exploration on this prospect. The Corporation, along with its

partners, will use the data collected to formulate future exploration plans for the Kaninah prospect. Total costs for this well as of December 31, 2008 was \$4,553,000 gross (\$2,601,000 net).

### ***West Mahrawa #2***

On January 9, 2009, the Corporation announced that drilling logs and subsequent initial testing have indicated the presence of hydrocarbons in the West Mahrawa #2. Initial test results yielded uneconomic results due to heavy oil with an API gravity of 4.62. Oil samples have been sent for analysis to assist in further evaluation of this well. Additional testing operations, if warranted, are expected to continue after the evaluation is completed and necessary testing equipment is obtained. Total costs for this well as of December 31, 2008 was \$6,419,000 gross (\$3,668,000 net).

### ***Mukulla #1***

In early 2009, the Corporation drilled the Mukulla #1 at a location approximately 15 kilometers east of the Al Waya discovery. On February 26, 2009, the Corporation announced that the Mukulla #1 was an exploratory dry hole after testing results failed to yield commercial quantities of oil or natural gas. The Mukulla #1 is the final obligation well under the approved 2008 drilling program with the Ministry of Minerals. The Mukulla #1 is expected to cost approximately \$3,500,000 gross (\$2,000,000 net).

### ***2009 Outlook***

The Corporation is currently evaluating the data obtained to date from its operations on Block 41 to determine the most effective way to proceed with its future exploration activities on Block 41, if any.

As of the date of this report, substantially all seismic activity has been focused on the western half of the middle portion of Block 41 where the Al Waya field discovery is located, which represents approximately one-third of the concession. There has been little or no exploratory activity conducted on the other portions of Block 41. As such, management believes there may be potential for substantial oil and gas resources yet to be exploited on Block 41 beyond the prospects identified on 2D seismic to date.

### ***Production Sharing Oil***

Up to 50% of the net crude oil produced and saved from the Block 41 PSA, after the deduction of royalty volumes, is available to the parties of the Block 41 PSA to be used to recover the costs that are eligible for cost recovery. Referred to as Cost Oil, it is allocated to the parties of the Block 41 PSA in accordance with their paying interest (absent an agreement amongst them to the contrary). Costs that may be recoverable include current operating costs and up to 50% of cumulative unrecovered exploration and development costs. Cost recovery is done on a quarterly basis. Crude oil produced and saved from the Block 41 PSA which is not used in petroleum operations, is not royalty volumes and not used for cost recovery purposes is Production Sharing Oil. As of December 31, 2008, approximately \$59 million of gross past costs qualified for cost recovery.

The government of Yemen's share of Production Sharing Oil is calculated on a weighted average basis using the table below. The remaining amounts are allocated to the parties of the Block 41 PSA, including The Yemen Company, in accordance with their respective participating interests.

<b>Production Sharing Oil</b>		
<b>Government Revenue Percentage</b>	<b>Monthly Average Daily Production Rate (Bbls/d)</b>	
	<b>Low</b>	<b>High</b>
65%	-	12,500
67%	12,501	25,000
70%	25,001	50,000
74%	50,001	75,000
77%	75,001	100,000
82%	100,001	100,001+

## ***Income Taxes***

The Contractors are obligated to pay Yemeni income taxes, however, under terms of the Block 41 PSA, the government of Yemen undertakes to pay such taxes, on behalf of each Contractor, from the government of Yemen's share of crude oil.

## **United States**

### ***Appalachian basin - Overview***

In the United States, the Corporation is focused on the Appalachian basin, where it is developing its Marcellus shale acreage in Pennsylvania and New York and has built a solid production base comprised of unconventional natural gas production in West Virginia from Devonian-aged shale gas zones and conventional natural gas production in New York from the Trenton-Black River formation. During 2008, the Corporation began to focus the majority of its Appalachian basin exploration and development efforts on its Marcellus shale acreage holdings and expects to continue to do so during 2009 and beyond.

The Marcellus Shale stretches from southern New York through western Pennsylvania into eastern Ohio and across West Virginia, where the Corporation has approximately 125,000 gross (65,000 net) leasehold acres, including approximately 48,000 gross (31,000 net) leasehold acres in highly prospective areas within Pennsylvania and New York. Industry publications, such as the January 2009 issue of the *Oil & Gas Investor*, continue to be very bullish on the Marcellus Shale, including recently published estimates of an average of 3.30 Bcf of gross natural gas reserves per well, average finding and development costs of \$1.42/Mcfe and average internal rates of return of 86% based on average capital costs of \$2,500 per mineral acre and average drilling costs of \$3.75 million per well. Based on Epsilon's operations to date, the Company expects to achieve results within the range of the aforementioned metrics.

### ***Pennsylvania***

As of December 31, 2008 the Corporation has acquired approximately 15,403 gross (15,184 net) leasehold acres in Pennsylvania where the Corporation is operator, holds a 100% working interest and is focused on the Marcellus shale, an unconventional Devonian-aged shale gas zone. The Corporation's Marcellus shale acreage appears to be in an over-pressured environment with upper (Purcell) and lower (Onondaga) limestone frac barriers present. As such, hydraulic frac stimulations are generally very effective in this geological environment.

As of December 31, 2008, the Corporation had drilled seven wells (four horizontal and three vertical) on its Highway 706 project in Susquehanna County, which is located in northeastern Pennsylvania. As of the date of this MD&A, the Corporation had completed and tested three of the wells for natural gas production. A summary of the test results follows:

- 1.1 Mmcf/d = Larue #1A (drilled vertically and tested in 4Q 2008)
- 3.2 Mmcf/d – Larue #1H (drilled horizontally - 3 stage frac, tested in 4Q 2008)
- 4.2 Mmcf/d – Larue #2H (drilled horizontally - 5 stage frac; tested in 1Q 2009)

As a result of the above, the Corporation currently has approximately 8.5 Mmcf/d of natural gas production shut in and waiting on natural gas gathering and pipeline infrastructure.

The Corporation currently is installing a natural gas gathering and pipeline system and anticipates natural gas production to commence during the later part of the first half of 2009. Initial production may be limited to current existing compressor capacity, which is approximately 6.0 - 7.1 Mmcf/d. The Corporation expects to obtain additional compression capacity during the second half of 2009, if warranted.

During 2009, the Corporation expects to drill at least two additional horizontal wells, complete six wells and hook-up all nine wells drilled for natural gas production at an estimated overall cost of approximately \$21,000,000.

## ***New York***

Within New York, the Corporation is focused on exploration and development of the Trenton-Black River formation (conventional gas) and the Marcellus shale (unconventional gas). The Corporation's acreage position covers primarily Schuyler, Steuben, Chemung and Tioga counties, consisting of approximately 32,618 gross (15,947 net) leasehold acres. The Corporation has a 50% working interest in its New York acreage, with two privately held companies each holding a 25% working interest. See "*Related Party Transactions – John Wilson, Director*".

### ***Marcellus Shale***

In New York, competitor companies are actively permitting Marcellus shale wells in and around the Corporation's leasehold acreage. The Corporation continues to evaluate potential exploration, development and production opportunities in the Marcellus shale, including but not limited to, participating in competitor wells, developing its existing leasehold acreage and/or entering in joint ventures with other companies. During 2008, the Corporation acquired 10,200 gross (5,100 net) prospective Marcellus shale leasehold acres in Chemung and Tioga counties in New York from a privately held company for approximately \$3.7 million.

During 2008, the Corporation participated in drilling one non-operated well (.03 net) in the Marcellus shale, which had a favorable production test and is currently shut in waiting on production infrastructure. Based on the positive test results from that well, the Corporation has commenced staking its first four company-operated Marcellus shale test wells within its Park Place project. Drilling operations on those wells are expected to commence during late 2009.

### ***Trenton-Black River***

The Corporation is also focused on exploration of the prolific Trenton-Black River formation, a conventional natural gas reservoir target. The Corporation holds various non-operated working interests with multiple operators in well units from less than 1%, up to approximately 12%. The Corporation has leveraged the expertise of local area operators, including utilizing 3D seismic and horizontal drilling techniques. Production rates from the Trenton-Black River can range from 3.0 MMcf/d to 40.0 MMcf/d on a gross basis.

Within the Trenton-Black River formation, 9 gross (0.34 net) wells were producing and 4 gross (0.08 net) wells were shut in waiting on pipeline connection at December 31, 2008. In addition, 4 gross (0.03 net) non-participating wells had not paid out and the Corporation had drilled 14 gross (0.42 net) exploratory dry holes since its inception. At December 31, 2008, net production from Trenton-Black River formation was approximately 957 Mcf/d.

### ***2009 Outlook***

Due to its current focus on the Marcellus shale in Pennsylvania and New York, the Corporation is not allocating a significant amount of capital to fund participation in drilling future wells targeting the Trenton-Black River formation in New York. During 2009, the Corporation expects to selectively participate in two or more Trenton-Black River wells with a small working interest and drill four Marcellus shale wells with a 50% working interest at an overall net cost of approximately \$1,300,000.

## ***West Virginia***

The Corporation currently has two medium-to-low risk Devonian-aged shale gas project areas in West Virginia; Amber Bank and Blue Jacket. Hard Rock Exploration Inc., a local operator, is the operator of each of these projects.

The Amber Bank project is located in Jackson and Roane counties and consists of approximately 25,957 gross (8,435 net) leasehold acres, in which the Corporation holds working interests ranging from 30% to 60%. In the Amber Bank project, the Corporation is focused on targets in three shallow unconventional Devonian-aged shale gas zones; the Lower Huron, Rhinestreet, and Marcellus. Collectively, these Devonian-aged shale gas zones represent approximately 850 feet of prospective gas bearing shale.

The Blue Jacket project is located in Cabell county and consists of approximately 10,197 gross (6,021 net) leasehold acres, in which the Corporation holds a 63% working interest. In the Blue Jacket project, the Corporation is focused on two shallow unconventional Devonian-aged shale gas zones; the Lower Huron and Rhinestreet. Collectively, these Devonian-aged shale gas zone represent approximately 400 feet of prospective gas bearing shale.

As of December 31, 2008, the Corporation had participated in drilling 111 gross (58.96 net) wells in West Virginia with a 100% success rate, including 108 gross (57.56 net) producing wells and 3 gross (1.40 net) wells that were shut in awaiting hook-up. Natural gas production from West Virginia was approximately 1,545 Mcfe/d net to the Corporation as of December 31, 2008. Due to its current focus on the Marcellus shale in Pennsylvania and New York, the Corporation does not anticipate allocating a significant amount of funds to continue participating in drilling wells on its West Virginia projects during 2009.

### *Ohio*

The Bailey's Mill project is located in Belmont and Monroe counties and consists of approximately 40,155 gross (8,840 net) leasehold acres, in which the Corporation holds a 25% working interest. PC Exploration Inc. is the operator and also holds a 75% working interest in the Bailey's Mill project. The Corporation is focused on the Marcellus, a shallow unconventional Devonian-aged shale gas zone. The Marcellus Devonian-aged shale gas zone represents approximately 80 feet of prospective gas bearing shale. As of December 31, 2008, the Corporation had drilled three gross (0.75 net) wells, all of which were producing gas on an intermittent basis at the rate of approximately 15-25 Mcf/d net to the Corporation. Due to its current focus on the Marcellus shale in Pennsylvania and New York, the Corporation does not anticipate allocating a significant amount of funds to continue participating in drilling future wells on its Bailey's Mill project.

### **Properties with no Attributable Reserves**

The Corporation has several active projects under various stages of evaluation that no proved or probable reserves have been assigned to. The following discussion pertains to those projects without proved or probable reserves:

### **Canada**

#### *Saskatchewan*

On August 8, 2008 the Corporation entered into an agreement with a private Canadian company covering joint oil and natural gas exploration and development activities in a 63,360 gross acre Area of Mutual Interest ("AMI") covering the Bakken oil play in southeast Saskatchewan province.

Under the terms of the agreement the Company has the ability to earn a 50% interest in approximately 8,960 gross (7,806 net) acres within the AMI. The private Canadian company is the operator of the AMI and drilling operations on the first well are expected to commence during the last half of 2009. The Company estimates it will spend a minimum amount of \$5.0 million on this project. The project lies within the favorable Saskatchewan province royalty area.

October 9, 2008, the Corporation acquired additional prospective Bakken oil play interests in approximately 31,370 gross (13,775 net) acres for approximately \$439,000 via a competitive bid at the Saskatchewan crown lease sale with the same private company.

#### *Quebec*

The Corporation has an elective participating interest of up to 25% in Gastem, Inc.'s (TSXV: GMR) holdings in approximately 1,185,000 gross (249,000 net) leasehold acres. The leasehold acreage includes 452,000 gross (66,000 net) leasehold acres in the St. Lawrence Lowlands covering Utica shale, and Trenton-Black River targets and 733,000 (183,000 net) leasehold acres in the Gaspé Peninsula covering Silurian and Devonian targets. Within the St. Lawrence Lowlands leasehold acreage, Forest Oil Corporation has committed to spend CDN\$10 million to earn a 60% interest in approximately 112,000 gross acres held by Gastem Inc, which is referred to as the Yamaska

project. The Corporation elected not to participate in the first two wells drilled on the Yamaska project. However, the Corporation has elected to participate in future operations with a 5% working interest and does not expect to spend a significant amount of capital.

## **Yemen**

### ***Block 41***

Refer to the discussion in “*Other Oil and Gas Information: Proved Oil and Gas Properties –Yemen*”.

## **Oman**

### ***Block 55***

On January 26, 2009, the Corporation was awarded a 100% working interest in Block 55, an onshore oil and natural gas concession in Oman that covers approximately 7,564 square kilometers (1,869,105 acres). In management’s opinion, Block 55 is prospective for commercial oil and natural gas exploitation. Exploration plans during the initial three year exploration program include acquiring 800 kilometers of seismic data, reprocessing 4,133 kilometers of existing seismic data and a drilling program covering a minimum of four initial exploratory wells designed to exploit Block 55’s oil and natural gas potential.

Within Block 55 four exploratory wells have been previously drilled, including the Ameeq-1, which is a discovery well that may contain crude oil reserves in the range of one to ten Mbbbl. Two of the three remaining exploratory wells previously drilled on Block 55 encountered oil and natural gas shows but failed to yield commercial quantities of oil. Adjacent to and within 20 kilometers of Block 55, there are approximately 27 discoveries, including 12 fields comprising approximately 158 wells that are currently productive. In addition, OilEx, who operates an adjacent block, has reported a significant oil discovery near the southern border of Block 55. Other oil and natural gas operators in the Sultanate of Oman include PDO, EnCana, Hunt Oil, Reliance Industries, MOL, Sinopec and Occidental.

Terms of the Exploration and Production Sharing Agreement (“EPSA”) include an initial bonus payment of \$2,000,000 and a commitment to spend a minimum of \$25,500,000 over an initial three-year exploration period comprising the following items:

- 3D seismic: acquire 300 square kilometers; reprocess 133 square kilometers
- 2D seismic: acquire 500 square kilometers, reprocess 4,000 square kilometers
- Drill four wells

At the Corporation’s option, the initial exploration period can be extended for an additional three year period provided the Corporation commits to spending \$28,500,000 comprising the following items:

- Acquire 600 square kilometers of 3D seismic or 500 square kilometers of 2D seismic
- Drill three wells

Commercial crude oil production carries a contractual term of 20 years and will be allocated as follows:

- 40% of crude oil production is designated for cost recovery.
- 60% of crude oil production is designated as profit oil and will be allocated as follows:
  - Up to 10,000 bbls/d: 80% government of Oman; 20% Operator
  - 10,000 to 20,000 bbls/d: 82.5% government of Oman; 17.5% Operator
  - Over 20,000 bbls/d: 83.5% government of Oman; 16.5% Operator

The Corporation is obligated to pay income taxes to the government of Oman. However, under terms of the Block 55 EPSA, the government of Oman undertakes to pay such taxes on behalf of the Corporation from the government of Oman’s share of crude oil and/or gas.

The Corporation is the official operator of Block 55 and is considering bringing in industry partners, raising additional capital, or a combination of both to fund the exploitation of this concession. Leaving aside the \$2,000,000 bonus payment, the Corporation does not expect to spend a significant amount of capital towards this concession until 2010 or later.

### **Federal Democratic Republic of Ethiopia (“Ethiopia”)**

#### ***Northwest Area Study Agreement***

On June 12, 2008, the Corporation entered into an exclusive Study Agreement, referred to as the Northwest Area Study Agreement, with the Ministry of Mines and Energy in Ethiopia. The Northwest Area Study Agreement covers 154,871.53 square kilometers (96,232.7 square miles) in the northwestern sector of the country for an initial one year term and includes an exclusive right to negotiate an agreement or agreements to further explore for oil and natural gas on any or all of the land covered by the Northwest Area Study Agreement by obtaining an oil and natural gas concession or concessions from the Ministry of Mines.

Since signing the Northwest Study Agreement, the Corporation has acquired detailed stream drainage maps and Landsat imagery over the study area. Based on that data, 13 large surface high areas have been identified. During 2009, the Corporation plans to apply for concession(s) covering some or all of the prospective areas identified thus far. The Corporation expects to spend approximately \$1 million during the term of the Northwest Area Study Agreement.

#### **Forward Contracts**

At December 31, 2008, the Corporation had not executed any forward contracts.

#### **Additional Information Concerning Abandonment and Reclamation Costs**

The Corporation has recorded legal obligations associated with the future abandonment and reclamation costs of its oil and natural gas properties. In the United States, those obligations, which are referred to as Asset Retirement Obligations (“ARO”), were estimated based on the Corporation’s net ownership interest in all wells and facilities in the United States, and includes estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods.

The Corporation has estimated the net present value of its total asset retirement obligations for wells drilled on its projects in the United States to be \$344,757 and \$194,777 at December 31, 2008 and 2007, respectively, based on estimated total undiscounted future liabilities of \$1,075,126 and \$524,558, respectively. These payments are expected to be made at the end of the associated properties economic life, which is estimated at approximately 65 years. The Corporation assumed an estimated credit adjusted risk-free rate of 4.25% and an estimated inflation rate of 2% to calculate the net present value of the asset retirement obligations. On an average per well basis, for asset retirement obligation calculation purposes the Corporation estimated the gross cost to plug and abandon its wells in the United States as follows:

New York (TBR):	\$350,000 gross per well
Pennsylvania:	\$15,000 gross per well
West Virginia and Ohio:	\$15,000 gross per well

Plugging and abandonment costs in Yemen and Oman are cost recoverable and all oil and natural gas properties revert back to the respective government at the end of the contract term. Accordingly, the Corporation will not recognize any future ARO associated with its property interests in Yemen or Oman.

#### **Tax Horizon**

The Corporation was not required to pay any income taxes during the year ended December 31, 2008.

In Yemen, the Corporation is obligated to pay Yemeni income taxes, however, under terms of the Block 41 PSA, the government of Yemen undertakes to pay such taxes, on behalf of the Corporation from the government of Yemen's share of crude oil.

### Costs Incurred

The table below summarizes the costs incurred for leasehold acquisition, exploration and development in fiscal year ended December 31, 2008.

#### 2008 Capital Expenditures (\$000's)

<u>Nature of Cost</u>	<u>Republic of Yemen</u>	<u>Ethiopia</u>	<u>United <sup>(1)</sup> States</u>	<u>Canada and Other</u>	<u>Total</u>
Acquisition	\$ -	\$ -	\$ 7,461	\$ 534	\$ 7,995
Exploration	15,125	1,851	8,070	451	25,497
Development	-	-	21,726	-	21,726
<b>Total</b>	<b>\$ 15,125</b>	<b>\$ 1,851</b>	<b>\$ 37,257</b>	<b>\$ 985</b>	<b>\$ 55,218</b>

Notes:

- (1) United States acquisition costs adjusted by \$1.755 million to account for cost basis associated with sold in unproved properties.

### Exploration and Development Activities

#### *Producing Wells*

The Corporation did not have any producing wells in the Yemen at December 31, 2008. The following table sets out the Corporation's producing wells by project area in the United States at December 31, 2008:

#### United States Producing Wells as of December 31, 2008

<u>Project Area</u>	<u>Producing Wells</u>	<u>Gross Wells <sup>(1)</sup></u>	<u>Net Wells <sup>(2)</sup></u>
West Virginia	108	57.56	48.38
New York	9	0.34	0.27
Ohio	3	0.75	0.64
<b>Total Wells</b>	<b>120</b>	<b>58.65</b>	<b>49.30</b>

Notes:

- (1) Gross Wells = net to the Corporation's working interest.  
(2) Net Wells = net to the Corporation's net revenue interest.

## ***Wells Drilled***

The table below summarizes the wells drilled during 2008:

### **Wells Drilled during 2008**

<b>Project Area</b>	<b>Wells Drilled</b>	<b>Gross Wells <sup>(1)</sup></b>	<b>Net Wells <sup>(2)</sup></b>
<i>Development Wells</i>			
<i>United States:</i>			
West Virginia	24	13.01	10.86
Total development wells	24	13.01	10.86
<i>Exploratory Wells:</i>			
<i>Republic of Yemen:</i>			
Block 41	3	1.71	1.50
Total Republic of Yemen	3	1.71	1.50
<i>United States:</i>			
Pennsylvania	6	6.00	5.25
New York	11	0.21	0.20
Ohio	1	0.25	0.21
Total United States	18	6.46	5.66
Total exploratory wells	21	8.18	7.16
<b>Grand Total</b>	<b>45</b>	<b>21.19</b>	<b>18.02</b>

Notes:

- (1) Gross Wells = net to the Corporation's working interest.
- (2) Net Wells = net to the Corporation's net revenue interest.

## ***2009 Drilling Plans***

### ***International***

During early 2009, the Corporation completed drilling and testing the Mukulla #1, which was determined to be an exploratory dry hole. As of the date of this report, the Corporation is evaluating the data gathered from the four exploratory dry holes to determine the scope of future exploration plans on Block 41, if any. The Corporation does not anticipate drilling in Oman or Ethiopia during 2009.

### ***United States***

During 2009, the Corporation plans to bring its Highway 706 project on line during the second quarter, including drilling at least two more wells in 2009. The Corporation also plans to drill approximately four wells on its

Marcellus shale acreage in New York and to participate in wells targeting the Trenton-Black River formation in New York, if warranted. Due to capital constraints and low commodity prices, the Corporation does not anticipate drilling any wells in West Virginia or Ohio. In Saskatchewan, the Corporation plans to drill its first well during late 2009. In Quebec, the Corporation does not anticipate drilling any wells during 2009.

### Production Estimates

Per the Reserve Report prepared by McDaniel covering Yemen, Block 41 oil production is expected to commence during 2009 from the Al Waya field. The following table sets forth the components of such:

#### Yemen Estimated Oil Production for 2009

<b>Project</b>	<b>Gross Oil (Mbbbl)</b>			<b>% of</b>
	<b>Proved</b>	<b>Probable</b>	<b>Total</b>	<b>Total</b>
Block 41	130	107	237	100%
<b>Total</b>	<b>130</b>	<b>107</b>	<b>237</b>	<b>100%</b>
<b>Project</b>	<b>Net Oil (Mbbbl)</b>			<b>% of</b>
	<b>Proved</b>	<b>Probable</b>	<b>Total</b>	<b>Total</b>
Block 41	107	89	196	100%
<b>Total</b>	<b>107</b>	<b>89</b>	<b>196</b>	<b>100%</b>

The following table sets out the Corporation's estimated production (after royalties) in the United States for natural gas for the fiscal year ending December 31, 2009:

#### United States Estimated Gross Oil and Natural Gas Production for 2009

<b>Project</b>	<b>Gross Oil (Mbbbl)</b>			<b>% of</b>
	<b>Proved</b>	<b>Probable</b>	<b>Total</b>	<b>Total</b>
Pennsylvania	-	-	-	0%
New York	-	-	-	0%
West Virginia	1	-	1	100%
Ohio	-	-	-	0%
<b>Total</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>100%</b>
<b>Project</b>	<b>Gross Gas (MMcf)</b>			<b>% of</b>
	<b>Proved</b>	<b>Probable</b>	<b>Total</b>	<b>Total</b>
Pennsylvania	515	373	888	10%
New York	6,739	-	6,739	78%
West Virginia	1,006	-	1,006	12%
Ohio	30	-	30	0%
<b>Total</b>	<b>8,290</b>	<b>373</b>	<b>8,663</b>	<b>100%</b>

#### United States Estimated Net Oil and Natural Gas Production for 2009

Project	Net Oil (Mbbbl)			% of
	Proved	Probable	Total	Total
Pennsylvania	-	-	-	0%
New York	-	-	-	0%
West Virginia	1	-	1	100%
Ohio	-	-	-	0%
<b>Total</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>100%</b>

  

Project	Net Natural Gas (MMcf)			% of
	Proved	Probable	Total	Total
Pennsylvania	451	326	777	55%
New York	200	-	200	14%
West Virginia	436	-	436	31%
Ohio	6	-	6	0%
<b>Total</b>	<b>1,093</b>	<b>326</b>	<b>1,419</b>	<b>100%</b>

### Production History

There was no oil or natural gas production from the Yemen during 2008. The table below shows for the fiscal year ended December 31, 2008 the average gas production, price received, royalties paid, operating expenses and netback by fiscal quarter for the United States:

#### United States 2008 Production History

Category	Q1 2008	Q2 2008	Q3 2008	Q4 2008	ANNUAL AVERAGE
<b>Average Daily Crude Oil Production before Royalty (Bpd)</b>	38	82	33	10	<b>40</b>
<b>Average Price (\$/Bbl)</b>	\$ 83.46	\$ 87.16	\$ 90.07	\$ 86.90	<b>\$ 86.98</b>
<b>Average Royalty (\$/Bbl)</b>	\$ 14.10	\$ 14.74	\$ 15.23	\$ 14.69	<b>\$ 14.71</b>
<b>Average Daily Natural Gas Production before Royalty (MMcf/d)</b>	1,791	2,018	3,185	2,827	<b>2,460</b>
<b>Average Price (\$/Mcf)</b>	\$ 10.14	\$ 12.47	\$ 9.09	\$ 7.87	<b>\$ 9.76</b>
<b>Average Royalty (\$/Mcf)</b>	\$ 1.69	\$ 2.07	\$ 1.50	\$ 1.30	<b>\$ 1.62</b>
<b>Operating Expenses <sup>(1)</sup> (\$/Mcfe)</b>	\$ 1.86	\$ 2.03	\$ 2.46	\$ 2.19	<b>\$ 2.18</b>
<b>Net Back Received (\$/Mcfe)</b>	\$ 6.59	\$ 8.36	\$ 5.12	\$ 4.38	<b>\$ 5.96</b>

Notes:

(1) Includes Transportation and Processing fees