



Statement of Reserves Data and Other Oil and Gas Information on December 31, 2010

Dated March 30, 2011

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Epsilon Energy Ltd.
Form 51-101F1
As at December 31, 2010
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EPSILON ENERGY LTD.

1. DEFINITIONS

Epsilon Energy Ltd. (the “Corporation” or “Epsilon”) 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 oil and natural gas reserves in the 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:

Crude Oil and Natural Gas Liquids		Natural Gas	
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
Financial			
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

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 March 30, 2011 with an Effective Date of December 31, 2010.

Miller and Lents, Ltd. (“MLL”) has prepared a reserve report dated March 3, 2011 with an effective date of December 31, 2010 (the “MLL Report”) which evaluates the natural gas reserves attributable to the Corporation’s interests in its United States and Canadian 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 MLL 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 oil and 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

Reserves Category	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)
Proved Developed Producing	14	6	21,125	4,896	-	-
Proved Non-Producing	-	-	10,019	2,208	-	-
Proved Undeveloped	-	-	299,834	79,448	-	-
Total Proved	14	6	330,978	86,552	-	-
Probable	-	-	64,964	14,127	-	-
Total Proved Plus Probable	14	6	395,942	100,679	-	-

Canada Oil and Gas Reserve Volumes

Reserves Category	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
	Gross ⁽¹⁾ (Mbbbl)	Net ⁽¹⁾ (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)
Proved Developed Producing	14	6	-	-	-	-
Proved Non-Producing	-	-	-	-	-	-
Proved Undeveloped	-	-	-	-	-	-
Total Proved	14	6	-	-	-	-
Probable	-	-	-	-	-	-
Total Proved Plus Probable	14	6	-	-	-	-

United States Oil and Gas Reserve Volumes

Reserves Category	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
	Gross ⁽¹⁾ (Mbbbl)	Net ⁽¹⁾ (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)
Proved Developed Producing	-	-	21,125	4,896	-	-
Proved Non-Producing	-	-	10,019	2,208	-	-
Proved Undeveloped	-	-	299,834	79,448	-	-
Total Proved	-	-	330,978	86,552	-	-
Probable	-	-	64,964	14,127	-	-
Total Proved Plus Probable	-	-	395,942	100,679	-	-

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 ⁽¹⁾
	0	5	10	15	20	0	5	10	15	20	
Proved:											
Producing	\$ 21,970	\$ 16,381	\$ 13,432	\$ 11,602	\$ 10,339	\$ 14,263	\$ 10,610	\$ 8,676	\$ 7,469	\$ 6,633	
Non-prod	10,717	7,761	6,312	5,433	4,827	6,966	5,046	4,107	3,538	3,146	
Undeveloped	364,966	247,959	190,529	155,815	132,136	237,228	160,919	123,433	100,773	85,326	
Total Proved	397,653	272,101	210,273	172,850	147,302	258,457	176,575	136,216	111,780	95,105	
Probable	58,258	37,068	26,793	20,678	16,582	37,868	23,998	17,252	13,231	10,536	
Total Proved + Probable	\$ 455,911	\$ 309,169	\$ 237,066	\$ 193,528	\$ 163,884	\$ 296,325	\$ 200,573	\$ 153,468	\$ 125,011	\$ 105,641	

(1) Unit Value is Before Income Tax Discounted 10% (\$ per Mcfe)

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 ⁽¹⁾
	0	5	10	15	20	0	5	10	15	20	
Proved:											
Producing	\$ 21,530	\$ 16,014	\$ 13,118	\$ 11,327	\$ 10,096	\$ 13,995	\$ 10,386	\$ 8,485	\$ 7,302	\$ 6,485	
Non-prod	10,717	7,761	6,312	5,433	4,827	6,966	5,046	4,107	3,538	3,146	
Undeveloped	364,966	247,959	190,529	155,815	132,136	237,228	160,919	123,433	100,773	85,326	
Total Proved	397,213	271,734	209,959	172,575	147,059	258,189	176,351	136,025	111,613	94,957	
Probable	58,258	37,068	26,793	20,678	16,582	37,868	23,998	17,252	13,231	10,536	
Total Proved + Probable	\$ 455,471	\$ 308,802	\$ 236,752	\$ 193,253	\$ 163,641	\$ 296,057	\$ 200,349	\$ 153,277	\$ 124,844	\$ 105,493	

(1) Unit Value is Before Income Tax Discounted 10% (\$ per Mcfe)

Canada 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 ⁽¹⁾
	0	5	10	15	20	0	5	10	15	20	
Proved:											
Producing	\$ 440	\$ 367	\$ 314	\$ 274	\$ 243	\$ 268	\$ 224	\$ 191	\$ 167	\$ 148	
Non-prod	-	-	-	-	-	-	-	-	-	-	
Undeveloped	-	-	-	-	-	-	-	-	-	-	
Total Proved	440	367	314	274	243	268	224	191	167	148	
Probable	-	-	-	-	-	-	-	-	-	-	
Total Proved + Probable	\$ 440	\$ 367	\$ 314	\$ 274	\$ 243	\$ 268	\$ 224	\$ 191	\$ 167	\$ 148	

(1) Unit Value is Before Income Tax Discounted 10% (\$ per Mcfe)

Discounted Future Net Revenues

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

Reserves Category	Net Revenue ⁽¹⁾	Operating Costs ⁽²⁾	Development Costs ⁽³⁾	Abandonment and Reclamation Costs ⁽³⁾	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved Producing	\$ 31,621	\$ 9,548	\$ -	\$ 104	\$ 21,970	\$ 7,707	\$ 14,263
Proved Non-Producing	14,048	3,320	-	12	10,717	3,751	6,966
Proved Undeveloped	523,506	120,735	37,402	403	364,966	127,738	237,228
Total Proved	569,175	133,603	37,402	519	397,653	139,196	258,457
Probable	94,125	21,552	14,244	72	58,258	20,390	37,868
Total Proved and Probable	\$ 663,300	\$ 155,155	\$ 51,646	\$ 591	\$ 455,911	\$ 159,586	\$ 296,325

Notes:

- (1) Revenue after all royalty deductions.
- (2) Including net severance and Ad Valorem Taxes.
- (3) Costs escalated 2%
- (4) Includes the Corporation's share of bonus and exploration tax.

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

Reserves Category	Net Revenue ⁽¹⁾	Operating Costs ⁽²⁾	Development Costs ⁽³⁾	Abandonment and Reclamation Costs ⁽³⁾	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved Producing	\$ 30,999	\$ 9,375	\$ -	\$ 104	\$ 21,530	\$ 7,536	\$ 13,994
Proved Non-Producing	14,048	3,320	-	12	10,717	3,751	6,966
Proved Undeveloped	523,506	120,735	37,402	403	364,966	127,738	237,228
Total Proved	568,553	133,430	37,402	519	397,213	139,025	258,188
Probable	94,125	21,552	14,244	72	58,258	20,390	37,868
Total Proved and Probable	\$ 662,678	\$ 154,982	\$ 51,646	\$ 591	\$ 455,471	\$ 159,415	\$ 296,056

Notes:

- (1) Revenue after all royalty deductions.
- (2) Including net severance and Ad Valorem Taxes.
- (3) Costs escalated 2%

Canada Discounted Future Net Revenues (\$000'S)

Reserves Category	Net Revenue ⁽¹⁾	Operating Costs	Development Costs ⁽²⁾	Abandonment and Reclamation Costs	Future Net Revenue Before Income Taxes	Income Taxes ⁽³⁾	Future Net Revenue After Income Taxes
Proved Producing	\$ 622	\$ 173	\$ -	\$ 9	\$ 440	\$ 171	\$ 268
Proved Non-Producing	-	-	-	-	-	-	-
Proved Undeveloped	-	-	-	-	-	-	-
Total Proved	\$ 622.00	\$ 173.0	\$ -	9	\$ 440.0	\$ 171.0	\$ 268.0
Probable	-	-	-	-	-	-	-
Total Proved and Probable	\$ 622.00	\$ 173.0	\$ -	\$ 9	\$ 440.0	\$ 171.0	\$ 268.0

Notes:

- (1) Revenue after all royalty deductions.
- (2) Including net severance and Ad Valorem Taxes.
- (3) Costs escalated 2%

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)

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10% /year) (\$000's)
Proved Reserves	Light and Medium Crude Oil	\$ 314
	Natural Gas	\$ 209,960
Probable Reserves	Light and Medium Crude Oil	\$ -
	Natural Gas	\$ 26,793
Proved Plus Probable Reserves	Light and Medium Crude Oil	\$ 314
	Natural Gas	\$ 236,753
Proved Plus Probable Total		\$ 237,067

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

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10% /year) (\$000's)
Proved Reserves	Light and Medium Crude Oil	\$ -
	Natural Gas	\$ 209,960
Probable Reserves	Light and Medium Crude Oil	\$ -
	Natural Gas	\$ 26,793
Proved Plus Probable Reserves	Light and Medium Crude Oil	\$ -
	Natural Gas	\$ 236,753
Proved Plus Probable Total		\$ 236,753

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

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10% /year) (\$000's)
Proved Reserves	Light and Medium Crude Oil	\$ 314
	Natural Gas	\$ -
Probable Reserves	Light and Medium Crude Oil	\$ -
	Natural Gas	\$ -
Proved Plus Probable Reserves	Light and Medium Crude Oil	\$ 314
	Natural Gas	\$ -
Proved Plus Probable Total		\$ 314

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 and natural gas base case prices as forecast by MLL for the United States and Canada utilized the NYMEX and WTI forecast average price indices for gas and oil respectively, published December 31, 2010 for each of the first two years with 2% escalation thereafter as benchmark.

Commodity prices and inflation rate assumptions follow:

Commodity Price and Inflation Rate Assumptions

Year	United States & Canada	
	Crude Oil	Natural Gas
	(\$Bbl)	(\$/MMbtu)
2011	\$ 91.75	\$ 4.56
2012	\$ 92.94	\$ 5.08
2013	\$ 94.01	\$ 5.57
2014	\$ 95.89	\$ 5.68
2015	\$ 97.81	\$ 5.80
2016	\$ 99.77	\$ 5.91
2017	\$ 101.76	\$ 6.03
2018	\$ 103.80	\$ 6.15
2019	\$ 105.87	\$ 6.27
2020	\$ 107.99	\$ 6.40
2021	\$ 110.15	\$ 6.53
2022	\$ 112.35	\$ 6.66
2023	\$ 114.60	\$ 6.79
2024	\$ 116.89	\$ 6.93
2025	\$ 119.23	\$ 7.06
2026	\$ 121.62	\$ 7.21
2027	\$ 124.05	\$ 7.35
2028	\$ 126.53	\$ 7.50
2029	\$ 129.06	\$ 7.65
2030	\$ 131.64	\$ 7.80
Thereafter	\$ 131.64	\$ 7.80

Historical Prices

The average gas price received pertaining to United States natural gas production during 2010 was \$79.62 per Bbl of crude oil and \$4.89 per Mcf of natural gas.

Notes:

(1) "**Gross**" means the Corporation's total working interest and/or royalty interest share before royalties owned by others.

(2) "**Net**" means Epsilon's total working interest and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

(3) "**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.

(4) "**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.

(5) "**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.

(6) "**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.

(7) "**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.

(8) "**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.

(9) "**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.

(10) "**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.

(11) "**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 of Reconciliation of Gross Reserves by Production Type

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

Category	United States					
	Oil (Mbbbl)			Natural Gas (MMcf)		
	Proved	Probable	Total	Proved	Probable	Total
Balance, 12/31/09	-	-	-	96,365	36,300	132,665
Extensions & Improved Recovery	-	-	-	241,828	28,664	270,492
Technical Revisions	-	-	-	1,367	-	1,367
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	-	-	-	-	-	-
Production	-	-	-	(8,581)	-	(8,581)
Balance, 12/31/10	-	-	-	330,978	64,964	395,942

Category	Canada					
	Oil (Mbbbl)			Natural Gas (MMcf)		
	Proved	Probable	Total	Proved	Probable	Total
Balance, 12/31/09	2	-	2	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-
Technical Revisions	15	-	15	-	-	-
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	-	-	-	-	-	-
Production	(3)	-	(3)	-	-	-
Balance, 12/31/10	14	-	14	-	-	-

In the United States, the Corporation farmed out 50% of its Highway 706 project targeting the Marcellus shale in Susquehanna County (the "County"), Pennsylvania to Chesapeake Energy Corporation ("Chesapeake"). Under the farm-out, which became effective February 1st, 2010, Chesapeake paid to Epsilon \$5,000,000 in cash and will carry Epsilon for \$95,000,000 of future capital expenses. In exchange for this, Chesapeake received the contractual rights to earn 50% of all assets owned by Epsilon in the County, including leasehold, producing wells, reserves, and gathering infrastructure. Beyond this, further technological improvements in drilling and fracturing, in addition to denser well spacing, have resulted in additional ultimately recoverable reserves totaling 241.8 BCF of gross proved reserves and 28.7 BCF of gross probable reserves.

In Canada, the Corporation's single oil well produced with shallower decline rates than expected, and, in combination with stronger oil prices, extended the life of the well. Consequently, the estimated ultimate recovery of the well has increased significantly.

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 three years of the date of such integration. A summary of gross and net undeveloped reserves as of December 31, 2010, 2009, 2008 and prior, respectively, follows:

Undeveloped Reserves

	Company Gross Undeveloped Reserves	
	United States (MMcf) ⁽¹⁾	Canada (Mbbbl)
	<u>1st Attributed</u>	<u>1st Attributed</u>
Proved Undeveloped		
Prior to 2008	19,428	937
2008	6,592	-
2009	62,235	2
2010	299,834	-
Probable Undeveloped		
Prior to 2008	45,383	3,765
2008	5,463	-
2009	36,300	-
2010	64,964	-

Notes:

- (1) 1st attributed amounts apply to the Corporation's Marcellus shale holdings in Pennsylvania.

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 arise 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.

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 2011, 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. 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 on terms acceptable to the Corporation.

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

<u>Year</u>	<u>Proved</u>	<u>Probable</u>	<u>Total</u>
2011	\$ 4	\$ -	\$ 4
2012	\$ 28,892	\$ 11,669	40,560
2013	\$ 8,511	\$ 2,575	11,086
2014	\$ 4	\$ -	4
2015	\$ 1	\$ -	1
Thereafter	\$ 508	\$ 72	580
Total	\$ 37,920	\$ 14,316	\$ 52,236

United States Development Costs

<u>Year</u>	<u>Proved</u>	<u>Probable</u>	<u>Total</u>
2011	\$ 4	\$ -	\$ 4
2012	28,892	11,669	40,560
2013	8,511	2,575	11,086
2014	4	-	4
2015	1	-	1
Thereafter	499	72	571
Total	\$ 37,911	\$ 14,316	\$ 52,227

Canada Future Development Costs

Year	Proved	Probable	Total
2011	\$ -	\$ -	\$ -
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
Thereafter	9	-	9
Total	\$ 9	\$ -	\$ 9

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

Proved Oil and Gas Properties

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

United States

Pennsylvania Marcellus Shale

As of December 31, 2010, the Corporation had approximately 11,500 gross (5,750 net) leasehold acres in Pennsylvania where Chesapeake is the operator. To date, the Corporation has either drilled or participated in the drilling of twenty five wells in the Marcellus shale on its Highway 706 project in northeastern Pennsylvania. Nine of the wells have produced at a combined average rate of 8.2 Mmcf per day in 2010, with two compressors in operation with total capacity of 10 Mmcf per day.

New York

In New York, where the Corporation holds an interest in approximately 23,000 gross (10,700 net) acres, the Corporation's acreage is prospective for natural gas production in both the Marcellus shale, (shallow unconventional natural gas play) and the Trenton-Black River formation (deep conventional natural gas play).

NY Marcellus Shale

In NY Marcellus Shale, where the Corporation holds approximately 47% interest in the leasehold and is the operator, it 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. As such, the Corporation has commenced the early stages of forming a large Marcellus shale project, including staking well locations, planning infrastructure and seeking regulatory approvals. Marcellus shale drilling permits utilizing larger hydro-fractures are currently on hold pending completion of a Supplemental Generic Environmental Impact Statement by the New York Department of Environmental Conservation. As of the date of this report the Corporation had drilled four wells in New York.

NY Trenton-Black River

The Corporation is also focused on exploration of the prolific Trenton-Black River formation, a deep 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%.

In 2010, net production from Trenton-Black River formation was approximately 0.3 Mmcf/d. 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.

Ohio

The Bailey's Mill project is located in Belmont and Monroe counties and consists of approximately 21,600 gross (4,300 net) leasehold acres, in which the Corporation holds a 25% non-operated working interest. 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 28, 2008, the Corporation entered into an agreement with an unrelated public 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. The project lies within the favorable Saskatchewan province royalty area. The public Canadian company is the operator of the AMI. The Corporation agreed to pay 100% of the costs to drill a minimum of two horizontal wells in order to earn a 50% working interest in approximately 8,960 gross (7,800 net) acres controlled by the unrelated public company.

Drilling operations in the AMI commenced in August 2009. The first well, the Torquay, was drilled horizontally, fractured and is currently in production. As of December 31, 2010, the Corporation paid \$2,180,126 (2009: \$2,213,680) for the cost to drill and complete the first of the two aforementioned earning wells. The second well obligation of \$2.4 million has been partially substituted for a 3D seismic program, which resulted in expenditures to the Corporation of \$1.365 million. The remaining balance after the completion of 3D seismic program will be committed to the next well that is expected to be drilled in 2011.

On October 9, 2008, the Corporation acquired additional prospective Bakken oil play interests in approximately 31,370 gross (13,800 net) acres jointly with the same public Canadian company via a competitive bid at the Saskatchewan crown lease sale. In this acreage, the Corporation plans to drill one well on the Ceylon Project area and a second well in the Weyburn Project area at a total cost of approximately \$1.0 million. The drilling on the first well is scheduled to commence during the second quarter of 2011. See "*Commitments and Contingencies – Bakken Shale Drilling Commitment*".

Quebec

The Corporation has an elective participating interest of up to 25% in a portion of Gastem Inc.'s (TSXV: GMR) leasehold acreage in the St. Lawrence Lowlands (covering Utica shale and Trenton-Black River targets) and in the Gaspé Peninsula (covering Silurian and Devonian targets). Within Gastem Inc.'s St. Lawrence Lowlands leasehold acreage, Forest Oil Corporation recently spent CDN\$10.0 million to earn a 60% interest in what is now referred to as the Yamaska project. The Corporation elected not to participate on the first two exploratory wells drilled within the Yamaska project, while electing to participate in future operations with a 5% working interest.

Ethiopia – Northwest Area Study Agreement

On May 14, 2009, the Corporation announced that it had signed a Production Sharing Agreement ("PSA") with the Ministry of Mines and Energy (the "**Ministry**") in Democratic Republic of Ethiopia. The PSA covers an area of

82,500 square kilometers (31,853 square miles) in northwest Ethiopia. Terms of the PSA include an initial three-year exploration period that includes a minimum financial commitment of \$3.0 million 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.

Forward Contracts

As of December 31, 2010, the company has no 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 include 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 to in USA to be \$170,788 and \$202,471 and in Canada to be \$14,081 and \$11,922 at December 31, 2010 and 2009, respectively, based on estimated total undiscounted future liabilities of \$450,553 and \$271,864, respectively. These payments are expected to be made at the end of the associated properties economic life, which has an estimated overall average of approximately 26 years for USA and 15 years for Canada. The Corporation assumed an estimated credit adjusted risk-free rate of 8% 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):	\$ 50,000 gross per well
New York (Oriskany):	\$ 15,000 gross per well
Pennsylvania:	\$ 25,000 gross per well
Ohio:	\$ 25,000 gross per well
Saskatchewan (Bakken):	\$ 30,000 gross per well

Tax Horizon

The Corporation was not required to pay any income taxes during the year ended December 31, 2010.

Costs Incurred

The table below summarizes the costs incurred for leasehold acquisition, exploration and development in fiscal year ended December 31, 2010.

2010 Capital Expenditures (\$000’s)

Nature of Cost	Ethiopia	United States	Canada and Other	Total
Acquisition	\$ 218	\$ (3,665)	\$ 106	\$ (3,341)
Exploration	77	778	1,681	2,536
Development	-	1,952	673	2,625
Total	\$ 295	\$ (935)	\$ 2,460	\$ 1,820

Exploration and Development Activities

Producing Wells

The following table sets out the Corporation's producing wells by project area in the United States and Canada at December 31, 2010:

United States Producing Wells as of December 31, 2010

<u>Project Area</u>	<u>Producing Wells</u>	<u>Gross Wells ⁽¹⁾</u>	<u>Net Wells ⁽²⁾</u>
Pennsylvania	9	8.12	7.11
New York	34	0.42	0.34
Ohio	3	0.75	0.64
Total Wells	46	9.29	8.09

Notes:

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

Canada Producing Wells as of December 31, 2010

<u>Project Area</u>	<u>Producing Wells</u>	<u>Gross Wells ⁽¹⁾</u>	<u>Net Wells ⁽²⁾</u>
Saskatchewan	1	0.50	0.45
Total Wells	1	0.50	0.45

Notes:

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

Wells Drilled

The table below summarizes the wells drilled during 2010:

Wells Drilled during 2010

<u>Project Area</u>	<u>Wells Drilled</u>	<u>Gross Wells ⁽¹⁾</u>	<u>Net Wells ⁽²⁾</u>
<i>Development Wells:</i>	0	0	0
<i>United States:</i>			
Pennsylvania	17	4.52	3.95
New York	4	2.00	1.75
Ohio	-	-	-
Total United States	21	6.52	5.70
<i>Canada:</i>			
Saskatchewan	1	0.50	0.50
Total Canada	1	0.50	0.50
Grand Total	22	7	6

Notes:

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

2011 Drilling Plans

United States

During 2011, the Corporation plans to continue development of its Highway 706 project pursuant to the joint operating agreement with Chesapeake Energy Corp., including drilling at least 20 more wells. The Corporation will also drill two wells in Mississippi pursuant to the Participation Agreement with Black Stone Minerals LP.

Canada

In Saskatchewan, the Corporation plans to drill at least 3 wells in 2011. In Quebec, the Corporation does not anticipate drilling any wells during 2011.

Ethiopia

The Corporation does not anticipate drilling any wells in North-West Ethiopia during 2011.

Production Estimates

The following table sets out the Corporation's estimated production (after royalties) in the United States and Canada for oil and natural gas for the fiscal year ending December 31, 2011:

United States Estimated Gross Oil and Natural Gas Production for 2011

Project	Gross Oil (Mbbl)			% of
	Proved	Probable	Total	Total
Pennsylvania	-	-	-	-
New York	-	-	-	-
Ohio	-	-	-	-
Total	-	-	-	-

Project	Gross Gas (MMcf)			% of
	Proved	Probable	Total	Total
Pennsylvania	21,382	-	21,382	91%
New York	2,120	-	2,120	9%
Ohio	10	-	10	0%
Total	23,512	-	23,512	100%

United States Estimated Net Oil and Natural Gas Production for 2011

Project	Net Oil (Mbbbl)			% of
	Proved	Probable	Total	Total
Pennsylvania		-	-	-
New York		-	-	-
Ohio		-	-	-
Total	-	-	-	-

Project	Net Natural Gas (MMcf)			% of
	Proved	Probable	Total	Total
Pennsylvania	5,023	-	5,023	99%
New York	49	-	49	1%
Ohio	2	-	2	0%
Total	5,074	-	5,074	100%

Canada Estimated Gross Oil and Natural Gas Production for 2011

Project	Gross Oil (Mbbbl)			% of
	Proved	Probable	Total	Total
Saskatchewan	2	-	2	100%
Total	2	-	2	100%

Project	Gross Gas (MMcf)			% of
	Proved	Probable	Total	Total
Saskatchewan	-	-	-	-
Total	-	-	-	0%

Canada Estimated Net Oil and Natural Gas Production for 2011

Project	Net Oil (Mbbbl)			% of
	Proved	Probable	Total	Total
Saskatchewan	1	-	1	100%
Total	1	-	1	100%

Project	Net Natural Gas (MMcf)			% of
	Proved	Probable	Total	Total
Saskatchewan	-	-	-	-
Total	-	-	-	0%

Production History

The table below shows the average gas production, price received, royalties paid, operating expenses and netback by fiscal quarter for the United States for the fiscal year ended December 31, 2010:

United States 2010 Production History

Category	Q1 2010	Q2 2010	Q3 2010	Q4 2010	ANNUAL AVERAGE
Average Daily Crude Oil Production before Royalty (Bpd)	-	-	-	-	-
Average Price (\$/Bbl)	\$ -	\$ -	\$ -	\$ -	\$ -
Average Royalty (\$/Bbl)	\$ -	\$ -	\$ -	\$ -	\$ -
Average Daily Natural Gas Production before Royalty (MMcf/d)	8	8	6	9	8
Average Price (\$/Mcf)	\$ 5.11	\$ 5.03	\$ 4.31	\$ 5.11	\$ 4.89
Average Royalty (\$/Mcf)	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses ⁽¹⁾ (\$/Mcf)	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Net Back Received (\$/Mcf)					

Notes:

(1) Includes Transportation and Processing fees

Canada 2010 Production History

Category	Q1 2010	Q2 2010	Q3 2010	Q4 2010	ANNUAL AVERAGE
Average Daily Crude Oil Production before Royalty (Bpd)	2	1	1	1	1
Average Price (\$/Bbl)	\$ 82.00	\$ 65.00	\$ 70.00	\$ 80.00	\$ 80.00
Average Royalty (\$/Bbl)	\$ -	\$ -	\$ -	\$ -	\$ -
Average Daily Natural Gas Production before Royalty (MMcf/d)	-	-	-	-	-
Average Price (\$/Mcf)	\$ -	\$ -	\$ -	\$ -	\$ -
Average Royalty (\$/Mcf)	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses ⁽¹⁾ (\$/Mcf)	\$ -	\$ -	\$ -	\$ -	\$ -
Net Back Received (\$/Mcf)	\$ -	\$ -	\$ -	\$ -	\$ -

Notes:

(1) Includes Transportation and Processing fees