



**Unaudited Interim
Consolidated Financial Statements
June 30, 2009**

August 4, 2009

**Epsilon Energy Ltd.
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EPSILON ENERGY LTD.
Consolidated Balance Sheets
(Unaudited; All amounts stated in US\$)

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 20,470,955	\$ 8,233,442
Accounts receivable (Note 8).....	4,905,936	7,139,107
Notes receivable	380,132	359,401
Other current assets	265,334	262,979
Total current assets.....	<u>26,022,357</u>	<u>15,994,929</u>
Property and equipment:		
Net property and equipment (Note 3)	<u>77,725,048</u>	<u>84,353,485</u>
Other assets:		
Restricted cash (Note 4)	1,605,850	33,703,308
Other deferred charges and miscellaneous assets.....	18,367	17,842
Total other assets.....	<u>1,624,217</u>	<u>33,721,150</u>
Total assets	<u>\$ 105,371,622</u>	<u>\$ 134,069,564</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,128,974	\$ 14,636,468
Line of credit (Note 4)	8,634,500	19,184,134
Current portion of notes payable.....	22,772	15,574
Total current liabilities	<u>17,786,246</u>	<u>33,836,176</u>
Long-term liabilities:		
Notes payable.....	23,163	18,999
Other liabilities:		
Asset retirement obligations.....	227,500	319,763
Future income tax liabilities.....	-	2,600,000
Total other liabilities	<u>227,500</u>	<u>2,919,763</u>
Total liabilities	<u>18,036,909</u>	<u>36,774,938</u>
Commitments and Contingencies (Note 7).....		
Description of Business and Going Concern (Note 1)		
Shareholders' equity:		
Share capital (Note 5)	138,258,979	138,259,259
Contributed surplus (Note 5).....	5,896,382	5,401,361
Deficit	(48,239,153)	(36,558,958)
Accumulated other comprehensive loss	(8,581,495)	(9,807,036)
Sub total	<u>(56,820,648)</u>	<u>(46,365,994)</u>
Total shareholders' equity.....	<u>87,334,713</u>	<u>97,294,626</u>
Total liabilities and shareholders' equity	<u>\$ 105,371,622</u>	<u>\$ 134,069,564</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Oil & gas revenues	\$ 671,117	\$ 2,374,331	\$ 2,306,550	\$ 3,910,918
Natural gas gathering fees	61,164	-	133,248	-
Total revenues	<u>732,281</u>	<u>2,374,331</u>	<u>2,439,798</u>	<u>3,910,918</u>
Operating costs and expenses:				
Project operating costs.....	385,145	387,130	852,393	668,359
Impairment of unproved properties (Note 3)	2,172,276	-	2,172,276	-
Amortization, depletion and accretion...	611,483	579,990	1,308,194	1,007,490
General and administrative.....	1,166,189	2,637,315	2,472,382	4,175,522
Total operating costs and expenses ...	<u>4,335,093</u>	<u>3,604,435</u>	<u>6,805,245</u>	<u>5,851,371</u>
Operating loss	<u>(3,602,812)</u>	<u>(1,230,104)</u>	<u>(4,365,447)</u>	<u>(1,940,453)</u>
Other income (expense):				
Interest and other income (expense).....	(113,960)	302,586	(186,262)	729,811
Gain (loss) on sale of assets (Note 3)	(9,728,486)	5,085,855	(9,728,486)	5,085,218
Total other income (expense)	<u>(9,842,446)</u>	<u>5,388,441</u>	<u>(9,914,748)</u>	<u>5,815,029</u>
Net income (loss) before income taxes ...	<u>(13,445,258)</u>	<u>4,158,337</u>	<u>(14,280,195)</u>	<u>3,874,576</u>
Income taxes:				
Income tax recovery (Note 6).....	2,600,000	-	2,600,000	-
Net income (loss)	<u>(10,845,258)</u>	<u>4,158,537</u>	<u>(11,680,195)</u>	<u>3,874,576</u>
Deficit, beginning of period	<u>(37,393,895)</u>	<u>(3,154,803)</u>	<u>(36,558,958)</u>	<u>(2,871,042)</u>
Retained earnings (deficit), end of period	<u>\$ (48,239,153)</u>	<u>\$ 1,003,534</u>	<u>\$ (48,239,153)</u>	<u>\$ 1,003,534</u>
Basic net income (loss) per share	\$ (0.22)	\$ 0.09	\$ (0.23)	\$ 0.08
Basic weighted average number of shares outstanding	50,315,323	45,702,509	50,315,323	45,700,191
Diluted net income (loss) per share	\$ (0.21)	\$ 0.09	\$ (0.23)	\$ 0.08
Diluted average number of shares outstanding	50,315,323	47,715,323	50,315,323	45,715,323

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net loss for the period	\$ (10,845,258)	\$ 4,158,337	\$ (11,680,195)	\$ 3,874,576
Items not involving cash:				
Amortization, depletion and accretion	611,483	579,990	1,308,194	1,007,490
Stock based compensation	127,223	620,482	495,021	929,766
Impairment of unproved properties	2,172,276	-	2,172,276	-
(Gain) loss on sale of assets	9,728,486	(5,085,855)	9,728,486	(5,085,218)
Future income tax recovery	(2,600,000)		(2,600,000)	
Changes in non-cash balances related to operations (Note 10)	2,847,345	(4,368,402)	(3,655,455)	(5,320,471)
Net cash provided by (used in) operating activities	2,041,555	(4,094,448)	(4,231,673)	(4,593,857)
Cash flows from investing activities:				
Additions to oil and natural gas properties (Note 10)	(10,890,715)	(9,946,164)	(19,190,378)	(16,780,294)
Additions to other property and equipment	(37,754)	(166,232)	(42,878)	(260,719)
Proceeds from assets sold (Note 3)	12,946,450	6,713,920	12,946,450	6,839,761
Changes in restricted cash (Note 4)	23,415,150	(17,500,000)	32,097,458	(17,500,000)
Changes in notes receivable and other assets	(28,460)	87,865	(21,257)	97,175
Net cash provided by (used in) investing activities	25,404,671	(20,810,611)	25,789,395	(27,604,077)
Cash flows from financing activities:				
Proceeds from the issuance of warrants	-	42,500	(280)	42,500
Change in loan facilities (Note 4)	(16,354,570)	-	(10,549,634)	-
Change in long-term debt	7,187	30,077	4,164	30,077
Net cash flows provided by (used in) financing activities	(16,347,383)	72,577	(10,545,750)	72,577
Effect of currency rates on cash and cash equivalents				
	2,182,794	590,262	1,225,541	(1,011,049)
Decrease in cash	13,281,637	(24,243,220)	12,237,513	(33,136,406)
Cash and cash equivalents at beginning of period	7,189,318	38,182,414	8,233,442	47,075,600
Cash and cash equivalents at end of period	\$ 20,470,955	\$ 13,939,194	\$ 20,470,955	\$ 13,939,194
Cash and cash equivalents consist of:				
Cash	\$ 20,470,955	\$ 11,283,766	\$ 20,470,955	\$ 11,283,766
Interest bearing short-term deposits	-	2,655,428	-	2,655,428
Total cash and cash equivalents	\$ 20,470,955	\$ 13,939,194	\$ 20,470,955	\$ 13,939,194
Supplementary cash flow information:				
Interest received	\$ 32,577	\$ 376,099	\$ 222,788	\$ 920,837
Interest paid	\$ 146,561	\$ 400	\$ 366,597	\$ 400
Income taxes paid	\$ -	\$ -	\$ -	\$ -

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Comprehensive loss:				
Net loss.....	\$ (10,845,258)	\$ 4,158,337	\$ (11,680,195)	\$ 3,874,576
Other comprehensive loss:				
Currency translation adjustments	2,182,794	548,961	1,225,541	(1,052,351)
Balance, end of period.....	<u>\$ (8,662,464)</u>	<u>\$ 4,707,298</u>	<u>\$ (10,454,654)</u>	<u>\$ 2,822,225</u>
Accumulated Other Comprehensive Loss:				
Balance, beginning of period.....	\$ (10,764,289)	\$ 161,575	\$ (9,807,036)	\$ (738,425)
Currency translation adjustments	2,182,794	(1,601,312)	1,225,541	(1,052,351)
Balance, end of period.....	<u>\$ (8,581,495)</u>	<u>\$ (1,439,737)</u>	<u>\$ (8,581,495)</u>	<u>\$ (1,790,776)</u>

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Epsilon Energy Ltd.

Notes to the Unaudited Interim Consolidated Financial Statements

Unaudited

1. Description of Business and Going Concern

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, the Republic of Yemen (“Yemen”), the Federal Democratic Republic of Ethiopia (“Ethiopia”) and the Sultanate of Oman (“Oman”).

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting policies and follow the same accounting policies as the most recent annual audited financial statements, except as highlighted in Note 2 “*Accounting Pronouncements*”. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles (“GAAP”) applicable for annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Corporation’s 2008 audited consolidated financial statements.

The financial statements of the Corporation have been prepared on a going concern basis, which presumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Corporation is relying upon its ability to achieve profitable oil and natural gas production from its projects to continue as a going concern. Given the lead time associated with many of its exploration and development activities, the Corporation’s ability to continue as a going concern is dependent on many factors. Those factors include the results of future exploration, development and production activities, the timing, scope and pace of such activities, and events outside of the Corporation’s direct control, such as the global credit market crisis and oil and natural gas commodity price volatility.

As at June 30, 2009 the Corporation had a working capital surplus of \$8,236,110, and, for the first six months of 2009, incurred a net loss of \$11,680,195, and had negative cash flow from operations of \$4,231,673. During the first six months of 2009, the Corporation sold its West Virginia properties for a net amount of \$12,946,450 and incurred a net loss of \$9,728,486 on the transaction. Additional factors that will affect the Corporation’s ability to continue as a going concern include:

- Continued commercial production from its existing producing properties;
- Commencement of commercial production and profitable operations from exploration and development properties;
- Managing future international exploratory activities in a cost effective manner;
- Effectively managing the timing, pace, scope and the allocation of funds for capital expenditures within currently available capital resources;
- The continued support and cooperation of its lenders; and
- Raising additional capital, as warranted, to accelerate or supplement the Corporation’s capital expenditures by bringing in industry partners, additional debt financing, equity financing, sale of full or partial property interests, or a combination thereof.

The accompanying consolidated financial statements do not include any adjustments that might result if the Corporation is unable to continue as a going concern. Such adjustments could be material.

2. Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued section 3064 of the CICA Handbook “*Goodwill and Intangible Assets*”, which replaces section 3062 of the CICA Handbook “*Goodwill and Other Intangible Assets*” and section 3450 of the CICA Handbook “*Research and Development Costs*”. The new section of the CICA Handbook is applicable to fiscal years beginning on or after October 31, 2008 and establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards in the previous section 3062. On January 1, 2009, the Corporation adopted this section. This new standard did not have a material impact on the Corporation’s consolidated financial statements.

3. Property and Equipment

The following table summarizes the Corporation’s oil and natural gas property and other equipment as at June 30, 2009 and December 31, 2008:

	<u>Gross Cost</u>	<u>Accumulated Depletion, Depreciation and Amortization</u>	<u>Net Book Value</u>
As at June 30, 2009:			
Oil and natural gas properties			
United States ⁽¹⁾	\$ 62,843,534	\$ 4,662,905	\$ 58,180,629
Canada	650,422	-	650,422
Yemen.....	49,488,605	36,243,606	13,244,999
Ethiopia.....	2,080,675	-	2,080,675
Oman.....	3,017,693	27,803	2,989,890
Other	234,090	-	234,090
Total oil and natural gas properties	<u>118,315,019</u>	<u>40,934,314</u>	<u>77,380,705</u>
Office equipment:			
Software	108,366	56,455	51,911
Hardware.....	129,619	48,036	81,583
Furniture & fixtures, vehicles and other	<u>300,639</u>	<u>89,790</u>	<u>210,849</u>
Total office equipment	<u>538,624</u>	<u>194,281</u>	<u>344,343</u>
Grand total	<u>\$ 118,853,643</u>	<u>\$ 41,128,595</u>	<u>\$ 77,725,048</u>

	<u>Gross Cost</u>	<u>Accumulated Depletion, Depreciation and Amortization</u>	<u>Net Book Value</u>
As at December 31, 2008:			
Oil and natural gas properties			
United States	\$ 71,295,961	\$ 3,419,849	\$ 67,876,112
Canada	600,451	-	600,451
Yemen.....	47,316,330	34,071,330	13,245,000
Ethiopia.....	1,851,114	-	1,851,114
Oman.....	280,577	27,803	252,774
Other	170,141	-	170,141
Total oil and natural gas properties	<u>\$ 121,514,574</u>	<u>\$ 37,518,982</u>	<u>\$ 83,995,592</u>
Office equipment:			
Software	95,753	38,608	57,145
Hardware.....	127,590	35,220	92,370
Furniture & fixtures, vehicles and other	272,403	64,025	208,378
Total office equipment	<u>495,746</u>	<u>137,853</u>	<u>357,893</u>
Grand total	<u>\$ 122,010,320</u>	<u>\$ 37,656,835</u>	<u>\$ 84,353,485</u>

Cost Center Categorization

To date, the Corporation's oil and natural gas production has pertained solely to its properties in the United States. As at June 30, 2009 and as at December 31, 2008, the United States capitalized oil and natural gas properties classified as unproved and not subject to depletion totaled \$43,201,847 and \$45,055,464, respectively. As at June 30, 2009 and as at December 31, 2008, \$754,338 of capitalized costs pertaining to Yemen was classified as proved and the remaining Yemen costs were classified as unproved. As at June 30, 2009 and as at December 31, 2008, all capitalized costs associated with the Corporation's properties in Canada, Ethiopia, Oman and other miscellaneous international areas were categorized as unproved.

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

Capitalized G&A costs consist of wages, travel and other G&A costs directly associated with specific capital projects. Capitalized G&A costs for each country cost center for the three and six months ended June 30, 2009 and 2008, respectively, were as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Capitalized G&A Costs:				
United States.....	\$ 165,449	\$ 107,044	\$ 290,901	\$ 205,043
Canada.....	-	-	2,373	-
Yemen	26,077	205,898	53,319	379,780
Oman	117,404	2,073	242,915	2,073
Ethiopia	65,276	11,825	74,795	11,824
Other.....	16,714	-	28,202	-
Total.....	<u>\$ 390,920</u>	<u>\$ 326,840</u>	<u>\$ 692,505</u>	<u>\$ 598,720</u>

Sale of Oil and Natural Gas Property Interests

On June 16, 2009 the Corporation sold all of its oil and natural gas properties in West Virginia to an unrelated third party for a net amount of \$12,946,450 and recognized a net loss of \$9,728,486. During the first six months of 2008, the Corporation divested itself of non-core unproved properties located in West Virginia and Ohio for a net amount of \$6,839,761 and recognized a net gain of 5,085,218.

Unproved Property Impairment

During the first six months of 2009, the Corporation recorded an unproved property impairment of \$2,172,276 pertaining to Block 41 in Yemen, where it drilled an exploratory dry hole. At December 31, 2008, the Corporation recorded an unproved property impairment of \$34,071,330 covering its interests on Block 41 in Yemen. Management's assessment of the fair value of its unproved property costs for Block 41 at December 31, 2008 was approximately \$12.5 million, an amount that was subsequently determined to be essentially the same as of June 30, 2009. The valuation of oil and natural gas reserves contains significant measurement uncertainty, including such factors as market conditions, credit markets, category of oil and natural gas reserves, the location of oil and natural gas reserves and assumptions used to calculate the volumes of commercially producible oil and natural gas reserves and the resulting cash flows from such production. In addition to the aforementioned impairments, at December 31, 2008 the Corporation impaired \$27,803 relating primarily to Qatar, where it has no further exploration plans.

4. Loan Facilities and Letter of Credit

Loan Facilities

At June 30, 2009 and December 31, 2008, the Corporation had two credit lines in place totaling \$26,000,000 and had utilized \$8,634,500 of credit available at June 30, 2009 and \$19,184,134 of credit available at December 31, 2008. A discussion of each loan facility follows:

- *Northwestern Bank, Traverse City, Michigan:* USD\$11,000,000, secured by a lien on the Corporation's New York assets in the amount of \$10,000,000 and a \$1,000,000 minimum deposit at Northwestern Bank. There are no other debt covenants covering this loan facility. Terms of the credit line include an interest rate of prime less 1/4 percent. As at June 30, 2009, the Corporation had an outstanding amount of \$8,634,500 under the terms of this credit line, leaving \$2,365,500 of available unused credit. As at December 31, 2008, the Corporation had an outstanding amount of \$9,204,500 under the terms of this credit line, leaving \$1,795,500 of available unused credit.
- *TD Bank, Toronto, Canada:* USD\$15,000,000, secured by a minimum Canadian dollar equivalent of 115% of the borrowed amount. Terms of the credit line include an interest rate of prime plus 0.5%. There are no other debt covenants covering this loan facility. During the second quarter of 2009, the Corporation reduced the outstanding balance of this loan facility to zero. As at December 31, 2008, the Corporation had an outstanding amount of \$9,979,634 under the terms of this credit line, leaving \$5,020,366 of available unused credit.

Letter of Credit – International

Yemen

Under terms of the Block 41 PSA, as operator the Corporation must post a letter of credit in favor of the Ministry of Minerals covering the gross amount of expected expenditures during each calendar year. During 2008, the Corporation initially posted a \$16,000,000 letter of credit secured by \$17,600,000 of restricted cash deposits at TD Bank. The letter of credit was subsequently reduced as documented details pertaining to the work program on Block 41 were presented to the Ministry of Minerals by the

Corporation. At June 30, 2009, the balance of that letter of credit had been reduced to \$312,000, which was secured by restricted cash of \$432,750.

Restricted Cash

At June 30, 2009 and December 31, 2008, the Corporation's restricted cash balances consisted of the following:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Restricted Cash:		
Northwestern Bank – loan facility	\$1,000,000	\$ 1,000,000
TD Bank – loan facility	-	21,328,244
TD Bank – Yemen letter of credit.....	432,750	11,375,064
TD Bank – security for credit card.....	173,100	-
Total	<u>\$1,605,850</u>	<u>\$ 33,703,308</u>

5. Shareholders' Equity

(a) Authorized shares

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

(b) Issued

The following table summarizes the components of share capital for the six months ended June 30, 2009 and the year ended December 31, 2008:

	<u>Number of Shares Issued</u>	<u>Amount</u>
Balance at December 31, 2007	45,698,323	\$ 109,725,936
Warrants exercised.....	17,000	42,500
Warrants exercised.....	-	11,269
Shares issued for Bought Deal	5,600,000	33,442,500
Issuance costs for Bought Deal	-	(2,228,832)
Repurchase of Common Shares	(1,000,000)	(2,734,114)
Balance at December 31, 2008	<u>50,315,323</u>	<u>138,259,259</u>
Issuance costs for Bought Deal	-	(280)
Balance at June 30, 2009	<u>50,315,323</u>	<u>\$ 138,258,979</u>

(c) *Stock Options*

The following table summarizes stock option activity for the six months ended June 30, 2009 and the year ended December 31, 2008:

	As at June 30, 2009		As at December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Stock Options				
Outstanding:				
Beginning of period...	3,317,449	\$ 2.60	2,565,632	\$ 2.31
Granted	50,000	\$ 4.00	977,817	\$ 3.78
Exercised	-	\$ -	-	-
Forfeited	(384,047)	\$ 3.43	(226,000)	\$ 4.33
End of period	2,983,402	\$ 2.52	3,317,449	\$ 2.60
Exercisable at period-end.....	2,131,935	\$ 1.77	1,836,166	\$ 1.81

The following table summarizes information about stock options outstanding at June 30, 2009 and December 31, 2008:

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Black-Scholes Option Pricing Model Valuation	Weighted Average Remaining Contractual Life (in years)
As at June 30, 2009:				
\$ 0.85	251,270	251,270	\$ 112,146	4.45
\$ 1.00	856,000	856,000	557,768	6.38
\$ 2.00	347,500	347,500	330,281	2.44
\$ 2.50 ⁽¹⁾	521,132	514,665	789,495	7.01
\$ 4.00 ⁽²⁾	795,000	130,000	1,166,133	8.70
\$ 5.60 ⁽³⁾	50,000	-	94,270	9.13
\$ 6.10 ⁽⁴⁾	162,500	32,500	409,468	8.95
Total	2,983,402	2,131,935	\$ 3,459,561	6.68

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Black-Scholes Option Pricing Model Valuation	Weighted Average Remaining Contractual Life (in years)
As at December 31, 2008:				
\$ 0.85 ⁽⁵⁾	315,317	-	\$ 29,206	4.95
\$ 1.00	856,000	856,000	557,768	6.88
\$ 2.00 ⁽⁶⁾	347,500	314,167	320,576	2.94
\$ 2.50 ⁽⁷⁾	621,132	547,999	896,742	6.84
\$ 4.00 ⁽⁸⁾	865,000	118,000	1,003,418	9.10
\$ 5.34 ⁽⁹⁾	100,000	-	65,301	9.67
\$ 5.60 ⁽¹⁰⁾	50,000	-	42,850	9.63
\$ 6.10 ⁽¹¹⁾	162,500	-	220,181	9.45
Total	3,317,449	1,836,166	\$ 3,136,042	7.11

Notes:

- (1) Unvested options comprise (1) 4,800 unvested options covering an original option grant of 6,000 options granted on September 4, 2007 that vest 20% per year from the date of grant and (2) 1,667 unvested options covering an original option grant of 5,000 options on September 4, 2007 that vest 33% per year from the date of grant.
- (2) Unvested options comprise 665,000 options granted at various dates ranging from November 27, 2007 to April 17, 2009, all of which contain vesting provisions of 20% per year commencing one year from the date of grant.
- (3) Unvested options comprise 50,000 options granted on August 15, 2008 containing vesting provisions of 20% per year commencing one year from the date of grant.
- (4) Unvested options comprise 130,000 options granted on June 11, 2008 containing vesting provisions of 20% per year commencing one year from the date of grant.
- (5) Unvested options comprise 315,317 options that vest one-sixth per month commencing January 31, 2009.
- (6) Unvested options comprise 33,333 unvested options covering an original option grant of 100,000 options granted on April 9, 2007 that vest 33% per year from the date of grant.
- (7) Unvested options comprise (1) 4,800 unvested options covering an original option grant of 6,000 options granted on September 4, 2007 that vest 20% per year from the date of grant; (2) 1,667 unvested options covering an original option grant of 5,000 options on September 4, 2007 that vest 33% per year from the date of grant; and, (3) 66,666 of unvested options covering original option grants totaling 200,000 options granted on May 25, 2007 that vest one-third per year commencing on the date of grant.
- (8) Unvested options comprise 118,000 options granted at various dates ranging from November 27, 2007 to May 13, 2008, all of which contain vesting provisions of 20% per year commencing one year from the date of grant.
- (9) Unvested options comprise 100,000 options granted on September 1, 2008 containing vesting provisions of 20% per year commencing one year from the date of grant.
- (10) Unvested options comprise 50,000 options granted on August 15, 2008 containing vesting provisions of 20% per year commencing one year from the date of grant.
- (11) Unvested options comprise 162,500 options granted on June 11, 2008 containing vesting provisions of 20% per year commencing one year from the date of grant.

(d) Warrants

There were no outstanding warrants during the six months ended June 30, 2009. The following table summarizes warrant activity for the year ended December 31, 2008:

	Year Ended December 31, 2008	
	Number of Shares	Weighted Average Exercise Price
Warrants Outstanding:		
Beginning of year.....	17,000	\$ 2.50
Granted	-	-
Exercised.....	(17,000)	2.50
Expired.....	-	-
End of year.....	<u>-</u>	<u>\$ 0.00</u>
Exercisable at year-end..	<u>-</u>	<u>\$ 0.00</u>

(e) Contributed Surplus

The following table summarizes contributed surplus for the six months ended June 30, 2009 and the year ended December 31, 2008:

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Contributed surplus:		
Balance, beginning of period	\$ 5,401,361	\$ 1,512,133
Valuation of re-purchase of Common Shares	-	2,042,710
Amortization of stock options granted.....	<u>495,021</u>	<u>1,846,518</u>
Balance, end of period	<u>\$ 5,896,382</u>	<u>\$ 5,401,361</u>

Escrowed Shares

7,352,988 Common Shares held by certain insiders of the Corporation (the “*Escrowed Shares*”) were held in escrow by Computershare Trust Company of Canada, the escrow agent (the “*Escrow Agreement*”). Terms of the Escrow Agreement included the release of one-fourth of the Escrowed Shares upon completion of the Corporation’s Initial Public Offering (“IPO”) on October 24, 2007, one-third of the remaining Escrowed Shares six months after the IPO, one-half of the remaining Escrowed Shares twelve months after the IPO, and all remaining Escrowed Shares eighteen months after the IPO. All Escrowed Shares were released effective May 24, 2009.

6. Income Taxes

Due to the volatile nature of oil and natural gas exploration, development, and production activities, there are numerous uncertainties with respect to projecting future revenues and operating costs, which are integral components of future net income projections. These uncertainties include such items as production levels, capital expenditure levels, oil and natural gas commodity prices, reserve estimates, and lease operating costs. Actual results may vary significantly from projected amounts.

As a result of the Corporation’s sale of its oil and gas properties during the first six months of 2009 and a change in previously estimated tax pools, the Corporation has determined that it should provide a full allowance on deductible temporary differences as at June 30, 2009, resulting in a recovery of \$2,600,000 of future income taxes at December 31, 2008.

7. Commitments and Contingencies

Yemen

In accordance with the Farm-in Agreement with the Oil and Gas Mine Company (“OGMC”) dated September 10, 2007 covering the Corporation’s acquisition of a 57.14% paying interest in the Block 41 Production Sharing Agreement from OGMC, the Corporation is obligated to pay OGMC \$3,000,000 upon a Declaration of Commerciality, which is defined as “the *act of approval by the Ministry of Minerals on the behalf of the Republic of Yemen for an operator to develop a Commercial Discovery under an existing production sharing agreement.*” The \$3,000,000 payment will only be incurred in the event the Corporation makes a commercial oil or natural gas discovery on Block 41 and the Ministry of Minerals grants a license to commercially produce such discovery. Due to the contingent nature of this item, it is not reflected in the Corporation’s Balance Sheet at June 30, 2009 and December 31, 2008.

Oman – Block 55 Exploration and Production Sharing Agreement (“EPSA”)

On January 26, 2009, the Corporation was awarded a 100% operated working interest in Block 55, an onshore oil and natural gas concession in Oman, in return for a \$25.5 million work commitment over three years and sharing in commercial production, if any, which would be shared as follows over a 20 year contractual term:

- 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

In an effort to conserve its capital, as of June 30, 2009, the Corporation had not yet paid any up-front costs for Block 55 to the government of Oman. As at June 30, 2009, a total of \$2,250,000 of up-front costs had been capitalized, but not paid (including a \$2,000,000 signing bonus and \$250,000 for annual rental/training/data fees). Per the contract covering Block 55, the Corporation is subject to a London Interbank Offered Rate (“LIBOR”) plus 5% penalty on the outstanding unpaid amounts. At June 30,

2009, the Corporation has expensed an overall late penalty of \$30,000 pertaining to such unpaid amounts.

Bakken Shale Drilling Commitment

The Corporation entered into an agreement with an unrelated privately held Canadian company on August 28, 2008, whereby the Corporation agreed to pay 100% of the costs to drill a minimum of two horizontal wells in the Bakken shale in order to earn a 50% working interest in acreage controlled by the unrelated private company. The agreement was further amended on December 19, 2008, whereby the Corporation agreed to advance to the unrelated private company CDN\$2,712,000 prior to September 1, 2009 to drill the first earning well. Should the Corporation fail to do so, the Corporation must pay the unrelated private company liquidating damages of CDN\$2,000,000 and forfeit the Corporation's rights under the agreement. In addition, the unrelated private company shall then acquire the Corporation's other Bakken shale leasehold (purchased at the October 6, 2008 Saskatchewan Crown land sale and from Spartan on November 9, 2008) for CDN\$563,832. Furthermore, the unrelated private company is indebted to the Corporation in the amount of \$380,132 (CDN\$439,205), as evidenced by a notes receivable dated October, 6, 2008. The unrelated private company shall be entitled to offset the full amount that it may owe the Corporation should the Corporation fail to fund the first earning well and pay the liquidated damage amount outlined above. See Note 13 "*Subsequent Events – Bakken Shale Drilling Commitment*".

New York – Trenton-Black River Well Units

In June 2005, a new integration statute was enacted by the State of New York whereby leasehold interest owners could elect to participate in the drilling of a well by choosing one of the following options:

- 1) Integrated non-participating owner – leasehold owner elects to not pay their proportionate share of costs up-front. The leasehold owner participates in their proportionate share after payout of a non-consent penalty plus costs.
- 2) Integrated participating owner – leasehold owner elects to pay their proportionate share of costs up-front.
- 3) Integrated royalty owner – leasehold interest owner elects to receive a proportionate 12.5% royalty interest.

During 2006, the Department of Environmental Conservation classified the Corporation's interest in several wells drilled prior to the statute change, and by way of public hearing, as an integrated non-participating owner. As a result, the Corporation was charged a non-consent penalty on its pro-rata share of costs to drill and complete various wells by Fortuna Energy Inc., the operator. The Corporation believes its interest in the subject wells should have been classified as an integrated participating owner upon payment of its pro-rata share of costs, effectively negating the non-consent penalty the operator could charge prior to disbursing the Corporation's pro-rata share of profits. The Corporation formally appealed the Department of Environmental Conservation's ruling, and, if successful, will require the non-consent penalty withheld by the operator to be disbursed to the Corporation. As a result, there is no anticipated effect on the Corporation's established working interest.

The non-consent penalty is based upon 300% of 100% of the total drilling and completion costs incurred and paid by the operator and is applied by the operator of the well(s) in question when determining payout. Payout must be achieved prior to the Company being recognized as a participating owner in the well(s) in question. If payout is not achieved, the Company would not be recognized as a participating owner. Due to this contingency, there were no amounts initially recorded on the Company's financial statements prior to payout. In the case where payout has occurred, the Company recorded its share of costs and revenues on a prospective basis beginning with the month that each well had been determined to have achieved payout. The Company as non-operator is not liable to make any non-consent payments

As at June 30, 2009, the Corporation was classified as an integrated non-participating owner in 7 gross (0.10 net) wells, including 3 gross (0.06 net) for which the non-consent penalty had been paid out. As at June 30, 2009, the outcome of the Corporation's appeal was not determinable.

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

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Future Commitments:					
Accounts payable and accrued liabilities.....	\$ 9,354,901	\$ 9,354,901	\$ -	\$ -	\$ -
Line of credit.....	8,634,500	8,634,500	-	-	-
Long-term debt.....	45,935	22,772	23,163	-	-
Operating leases.....	1,058,032	419,156	524,629	114,247	-
Purchase obligations.....	2,079,335	2,079,335	-	-	-
Other long-term obligations ⁽¹⁾	29,318,690	-	29,318,690	-	-
Total.....	\$ 50,491,393	\$ 20,510,664	\$ 29,866,482	\$ 114,247	\$ -

Notes:

- (1) Includes \$25,500,000 pertaining to a three year work commitment for Block 55 in Oman and \$3,818,690 of costs pertaining to the Production Sharing Agreement in Ethiopia.

Arbitration – Pinpoint Drilling and Directional Services LLC

On November 5, 2008, Pinpoint Drilling and Directional Services, LLC ("Pinpoint"), a drilling contractor, served a Notice of Arbitration against the Corporation's contract operator. Pinpoint performed drilling services on the Highway 706 project under a drilling contract dated May 16, 2008 between Pinpoint and the Corporation's contract operator (the "Contract"). The Contract was for a term of one year, commencing on the date Pinpoint spudded the first well. Under the terms of the Contract, the Corporation is subject to an operating day rate of \$18,500 per day and a stand-by day rate of \$14,800 per day. In the arbitration, Pinpoint originally sought recovery of \$1,159,000 in allegedly due and owing invoices. The invoices were for drilling services Pinpoint claimed it performed on the Corporation's Highway 706 project in Pennsylvania during 2008. As of June 30, 2009 and December 31, 2008, the Corporation had capitalized the entire disputed amount, including \$545,909 paid to Pinpoint near the time the Notice of Arbitration was filed and the \$612,641 remainder that the Corporation's contract operator asserts is not owed due to inadequate performance by Pinpoint, which remained unpaid at June 30, 2009.

On February 17, 2009, the Corporation, through its contract operator, informed Pinpoint of the termination of the Contract upon completion of drilling operations on the Hardic #2-H well, citing inadequate past performance by Pinpoint. Drilling operations on the Hardic #2-H well were completed on March 17, 2009. Subsequently, Pinpoint billed the Corporation's contract operator \$1,313,500 for early termination of the Contract, representing operating day rate charges from March 29, 2009 through June 7, 2009. Pinpoint amended its arbitration demand to include this amount. In addition, Pinpoint now asserts in the arbitration that it is owed an additional \$422,636. This amount was deducted by the Corporation's contract operator from certain Pinpoint invoices containing disputed charges. The Corporation's contractor operator contends the aforementioned charges are invalid. The Corporation has not capitalized any amounts pertaining to the aforementioned 2009 events. The arbitration is scheduled to take place in late 2009.

8. Financial Instruments

Risk Management

The Corporation, as part of its operations, enters into agreements which include financial instruments. The Corporation does not utilize derivative instruments to manage various types of risks. The Corporation is exposed to the following risks related to financial assets and liabilities:

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Liquidity describes a Corporation's ability to access cash. Companies operating in the upstream oil and natural gas industry require sufficient cash in order to fund capital programs necessary to explore, develop and produce oil and natural gas, and to repay debt. The Corporation actively monitors its cash requirements to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost. The Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as warranted. The Corporation also utilizes authorizations for expenditures to further manage capital expenditures.

At June 30, 2009, the Corporation had working capital surplus of \$8,236,110. However, when taking into account restricted cash securing the Corporation's loan facilities and line of credit, working capital would have been \$9,841,960. See Note 4 "*Loan Facilities and Letter of Credit*". In addition, the Corporation has commitments under existing agreements as described in Note 6 "*Commitments and Contingencies*". Given the Corporation's working capital position inclusive of restrictive cash and its outlook on future capital requirements, management assesses liquidity risk to be moderately high.

Commodity Price Risk

The Corporation sells its current oil and natural gas production at market rates and does not have any commodity based derivatives. Fluctuations in oil and natural gas prices can materially impact the current and future profitability of the Corporation. The Company does not enter into any derivative risk management contracts and therefore there is not an impact to net income relating to unrealized losses on financial instruments and commodity prices.

Interest Rate Risk

The Corporation maintains its short-term deposits in instruments that are redeemable within three months without penalty, and thereby is exposed to interest rate fluctuations. The Corporation does not utilize any interest rate based derivatives. The Corporation analyzes interest rate risk by calculating the effect of percent changes in the interest earned on its cash, cash equivalents and restricted cash. For example, a 5% plus or minus change in the 0.83% average interest rate earned during the first six months of 2009 based on the average of the Corporation's cash, cash equivalents and restricted cash balances as at June 30, 2009 and December 31, 2008 would have resulted in a change to the net loss for the first six months of 2009 of approximately \$3,000. In addition, the Corporation has \$8,634,500 of variable interest rate debt and a 5% plus or minus change in the average interest rate charged during the first six months of 2009 based on the average of the Corporation's debt balances as at June 30, 2009 and December 31, 2008 would have resulted in a change to the net loss for the first six months of 2009 of approximately \$35,000.

Foreign Currency Risk

The Corporation is exposed to risks arising from fluctuations in foreign currency exchange rates, primarily between Canadian and U.S. dollars. The Corporation does not utilize any foreign currency based derivatives. In order to manage this risk and to defer the realization of any resulting currency loss from converting Canadian dollars to US dollars, the Corporation has loan facilities in US Dollars totaling \$26,000,000 in place. At June 30, 2009, the outstanding balance of such loan facilities was \$8,634,500. During June 2009, the Corporation received a net amount of \$12,946,450 from the sale of

its oil and natural gas property interests in West Virginia and used part of the proceeds to eliminate its line of credit at TD Bank which was secured by Canadian dollars. See Note 4 “*Loan Facilities and Line of Credit*”.

The Corporation regularly analyzes foreign currency risk between Canadian dollars and US dollars by calculating the effect of percent changes in the foreign currency exchange rates against period end cash, cash equivalents and restricted cash balances. For example, applying a 5% plus or minus change in the 1.156 conversion rate of Canadian to US dollars at June 30, 2009 against the Corporation’s Canadian denominated cash, cash equivalents and restricted cash balances at June 30, 2009 would have affected the value of such balances by approximately \$802,000. Substantially all of the Corporation’s business operations are conducted in either US dollars or Canadian dollars. The Corporation conducts a negligible amount of business utilizing Yemeni, Oman and Ethiopian currencies and the impact on changes in currency is not significant.

Credit Risk

Credit risk arises from the possibility that the entities which the Corporation has receivables from or has invested in may experience difficulties and be unable to fulfill their obligations. The Corporation mitigates this risk of credit loss by taking a security interest in underlying assets of the investment. Accounts receivable are assessed on a regular basis by management to ensure the credit worthiness of debtors and the ultimate collection thereof. The Corporation’s accounts receivable balances consist of receivables pertaining to its natural gas and oil production in New York and for pro-rata share of costs of operations from its joint interest partners in New York and Yemen, all of which individually may comprise in excess of 10% of the Corporation’s overall accounts receivable balances. The Corporation’s maximum credit exposure is approximately two months of oil and natural gas production for revenue receivables. The Corporation has the right to offset the amount owed by its joint interest partners against any revenue it disburses to them. As at June 30, 2009 and December 31, 2008, there are no provisions for doubtful accounts pertaining to accounts receivable balances for its oil and natural gas revenues or its joint interest partners. The maximum credit risk that the Corporation is exposed to is the current carrying value of its accounts receivable.

As at June 30, 2009, OGMC, a non-operated joint interest owner in Block 41, owed the Corporation \$4,682,348, for their pro-rata share of costs pertaining to Block 41 in Yemen, all of which has been deemed to be in default. During the second quarter of 2009, OGMC made a partial payment of \$2,000,000 pertaining to the \$5,590,881 balance due at December 31, 2008. The Corporation is currently having ongoing discussions with OGMC. In the event the Corporation subsequently determines that it will not be able to recover the full amount due, the Corporation may choose to acquire OGMC’s interest in Block 41 in full satisfaction of the amount due.

Fair Value

The Corporation’s carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, line of credit, and notes payable equal their fair value due to the immediate or short-term maturity of these instruments.

9. Related Party Transactions

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

Executive Chairman

The Corporation utilizes administrative services provided by 706147 Ontario, Inc., a company owned by the Executive Chairman’s spouse. In addition, the Corporation shares office space with Capital Z Corporation, a company owned by the Executive Chairman, at no charge. Related party transactions with the Corporation’s Executive Chairman were conducted in Canadian dollars and the exchange rate differences were immaterial. A summary of related party transactions between the Corporation and its Executive Chairman follows:

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
706147 Ontario, Inc.:		
Administrative services.....	\$ 25,235	\$ 56,859

Director

On February 7, 2007, the Corporation obtained a 25% undivided participating interest in Gastem Inc.'s undeveloped oil and natural gas interests covering approximately 1,184,000 acres (249,000 net) in the St. Lawrence Lowlands and in the Gaspé Peninsula of Quebec. Under terms of the agreement, the Corporation may elect to participate on a well-by-well basis with a 25% working interest in any current or future oil and natural gas property Gastem Inc. may acquire in Quebec. In return, the Corporation granted Gastem Inc. the right to participate for 25% of the Corporation's interest in certain future wells to be drilled in the Corporation's Amber Bank project in West Virginia by spending up to \$1.05 million. The Corporation's carrying value of the portion of its Amber Bank project's leasehold attributable to Gastem Inc.'s participation was nominal. The agreement was consummated with the expectation that Raymond Savoie, Gastem Inc.'s President, would become a director of the Corporation. Mr. Savoie became a director of the Corporation on July 16, 2007. On June 16, 2009, the Corporation, along with Gastem Inc., sold all of its oil and natural gas property interests in West Virginia to an unrelated third party for a gross amount of \$14,000,000 (\$779,802 net to Gastem Inc.). Related party transactions with Gastem Inc. were conducted in US dollars. A summary of Gastem's joint venture share of related party transactions between the Corporation and Gastem Inc. follows:

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Gastem Inc.:		
Accounts receivable.....	\$ -	\$ 21
Joint venture costs.....	\$ 32,197	\$ 76,876
Joint venture revenues.....	\$ 111,502	\$ 309,917
Accounts payable.....	\$ 12,900	\$ 14,995
Proceeds from sale of assets.....	\$ 779,802	\$ -

Director and former President and CEO

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

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Austin Exploration LLC:		
Accounts receivable	\$ 13,153	\$ 109,652
Joint venture costs	\$ 257,238	\$ 2,654,594
Joint venture revenues	\$ 366,951	\$ 902,291
Accounts payable	\$ -	\$ 75,115
Western Land Services:		
Lease brokerage services	\$ 291,359	\$ 1,667,898
Accounts payable	\$ 87,732	\$ 138,819

10. Changes in non-cash balances related to cash flows

Non-cash changes to the *Changes in Non-cash Balances Related to Operations* component of cash flows used in operations for the three and six months ended June 30, 2009 and 2008, respectively, were comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Changes in Non-Cash Working Capital Balances:				
Accounts receivable	\$ 2,593,005	\$ 1,781,741	\$ 2,233,171	\$ (2,441,203)
Other current assets	(54,227)	(62,928)	(2,355)	186,477
Accounts payable, accrued and other liabilities	308,567	(6,087,215)	(5,886,271)	(3,065,745)
Total changes to non-cash balances related to operations	<u>\$ 2,847,345</u>	<u>\$ (4,368,402)</u>	<u>\$ (3,655,455)</u>	<u>\$ (5,320,471)</u>

Non-cash changes relating to the *Additions to Oil and Natural Gas Properties* component of cash used in investing activities for the three and six months ended June 30, 2009 and 2008, respectively, were comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Additions to Oil and Natural Gas Properties:				
Net change in gross property for the period	\$ (14,378,800)	\$ 12,614,848	\$ (3,199,555)	\$ 20,957,658
Non-cash changes:				
Asset retirement obligations	149,486	(20,018)	134,371	(81,770)
Cost of assets sold	22,674,937	1,628,064	22,674,937	1,754,544
Accrued liabilities	2,445,093	(4,276,730)	(419,375)	(5,850,138)
Total cash additions to oil and natural gas properties	<u>\$ 10,890,715</u>	<u>\$ 9,946,164</u>	<u>\$ 19,190,378</u>	<u>\$ 16,780,294</u>

The Corporation did not have any material non-cash changes pertaining to its financing activities for the presented periods.

11. Reportable Geographical Segments

As at June 30, 2009, the Corporation's operations by geographical area included the United States, Canada, Yemen, Ethiopia, and Oman. See Note 3 "Property and Equipment". Summarized reportable geographical segment data follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Reportable Segments:				
United States:				
Revenues	\$ 732,281	\$ 2,374,331	\$ 2,439,798	\$ 3,910,918
Operating costs.....	\$ 385,145	\$ 387,130	\$ 852,393	\$ 668,359
Capital expenditures.....	\$ 7,163,074	\$ 7,963,007	\$14,222,509	\$15,671,359
Canada:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 40,217	\$ -	\$ 49,971	\$ -
Yemen:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 299,659	\$ 4,511,308	\$ 2,172,276	\$ 5,145,766
Ethiopia:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 643,855	\$ 11,845	\$ 229,561	\$ 11,845
Oman:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 127,834	\$ 128,498	\$ 2,737,116	\$ 128,498

12. Capital Disclosures

There were no material changes in the Corporation's approach to capital management or externally imposed capital requirements during the first six months of 2009 or during 2008.

13. Subsequent Events

Bakken Shale Drilling Commitment

On July 2, 2009, the Corporation received and subsequently paid a cash call for \$2,079,335 (CDN\$2,403,300) covering the cost to drill the first earning well on its Bakken Shale acreage that is operated by an unrelated third party. Drilling of the well is expected to commence during August 2009.