



Management's Discussion and Analysis ("MD&A")

June 30, 2009

Dated August 4, 2009

**Epsilon Energy Ltd.
150 Jardin Drive, Suite 9
Concord, ON, Canada L4K 3P9**

(866) 384-8774

www.epsilonenergy ltd.com

EPSILON ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

This Management's Discussion and Analysis ("MD&A") is intended to assist in the understanding of trends and significant changes in or results of operations and the financial condition for the periods presented. The MD&A has been prepared by management as at August 4, 2009 in accordance with GAAP and should be read in conjunction with the unaudited interim consolidated financial statements (for the three and six months ended and as at June 30, 2009 and the three and six months ended and as at June 30, 2008), the audited consolidated financial statements as at December 31, 2008 and 2007, respectively, together with accompanying notes, the Statement of Reserves Data and Other Oil and Gas Information on December 31, 2008 and the Annual Information Form dated April 1, 2009. These documents and additional information about Epsilon Energy Ltd. (the "Corporation") are available on SEDAR at www.sedar.com. Unless stated otherwise, all references to monetary values are in United States dollars.

Cautionary Statement Regarding Forward Looking Information and Statements

Certain statements contained in this report constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions and statements relating to matters that are not historical facts constitute "forward looking information" within the meaning of applicable Canadian securities legislation. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated. Such forward-looking statements are based on reasonable assumptions but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this report should not be unduly relied upon. These statements are made only as of the date of this report.

In particular, this report contains forward-looking statements including, but not limited to, the following:

- oil and natural gas production rates;
- commodity prices for crude oil or natural gas;
- supply and demand for oil and natural gas;
- the estimated quantity of oil and natural gas reserves, including reserve life;
- capital expenditure programs;
- future exploration, development and production costs;
- timing of drilling plans;
- planned construction and expansion of facilities;
- plans for and results of exploration and development activities;
- expectations regarding the Corporation's ability to raise capital and to continually add to oil and natural gas reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes and tax laws.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this report:

- general economic, political, market and business conditions;
- risks inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for capital, acquisitions of reserves, undeveloped lands, drilling equipment and skilled personnel;

- geological, technical, drilling and processing problems;
- incorrect assessments of the value of acquisitions;
- the availability of capital on acceptable terms;
- volatility in market prices for oil and natural gas;
- reliance on key operational and management personnel;
- actions by governmental authorities, including regulatory, environmental and taxation policies;
- fluctuations in foreign exchange, interest rates and stock market volatility; and
- other risk factors discussed under “*Risk Factors*” within the Corporation’s Annual Information Form dated April 1, 2009.

These factors are not all inclusive. Except as required under applicable securities laws, the Corporation undertakes no obligation to update or revise any forward-looking statements.

Corporate Overview

The Corporation is engaged in the acquisition, exploration, development and production of oil and natural gas reserves in North America, the Middle East and Africa. The Corporation's strategy involves exploiting a well-balanced inventory of oil and natural gas projects with the goal of converting its leasehold interests into proven oil and natural gas reserves, followed by production that optimizes cash flow and return on investment. Also refer to “*Risk Factors*” in the Corporation’s Annual Information Form dated April 1, 2009.

Summary of Overall Performance

During the first six months of 2009, the Corporation continued to explore, develop and expand its oil and natural gas interests and generated a net loss of \$11,680,000, as compared to a \$3,875,000 net profit for the same period of 2008. The primary variance between the first six months of 2009 and the same period of 2008 was a recorded loss on the sale of the Corporation’s oil & gas property interests in West Virginia of \$9,728,000 and a \$2,172,000 impairment pertaining to Block 41 in Yemen during the first six months of 2009, as compared to a gain on the sale of non-core unproved leasehold interests in Ohio of \$5,086,000 during the same period of 2008. At June 30, 2009, the Corporation continued to have adequate funds for its ongoing operations with working capital surplus (inclusive of restricted cash) of \$9,842,000, as compared to \$15,862,000 of surplus working capital (inclusive of restricted cash) at December 31, 2008. The \$6,020,000 decrease in working capital at June 30, 2009, as compared to December 31, 2008 was partially comprised of \$19,190,000 spent on capital expenditures during the first six months of 2009, which was partially offset by a net amount of \$12,946,000 received from the sale of the Corporation’s oil and natural gas property interests in West Virginia.

Operational Outlook and Property Overview

A summary of Epsilon’s projects by country are as follows:

United States

Appalachian basin - Overview

In the United States, the Corporation is developing its Marcellus shale acreage in Pennsylvania and New York and is producing natural gas in New York from the Trenton-Black River formation, both of which are in the Appalachian basin. The Marcellus shale stretches from southern New York through western Pennsylvania into eastern Ohio and across West Virginia, where the Corporation has approximately 87,000 gross (39,000 net) leasehold acres, including approximately 46,000 gross (30,000 net) leasehold acres in highly prospective areas within Pennsylvania and New York. In New York, where the Corporation holds an interest in approximately 31,834 gross (15,548 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).

Pennsylvania

As of June 30, 2009, the Corporation had acquired approximately 15,403 gross (15,184 net) leasehold acres in Pennsylvania where the Corporation is operator, holds a 100% working interest. The Corporation is focusing its current development efforts in the Marcellus shale on its Highway 706 project in northeastern Pennsylvania. To date, the Corporation has drilled eight wells in Highway 706, all of which are in various stages of development. Production results to date have performed within management expectations. The Corporation is finalizing an extension of its gathering system to its compressor site in order to bring on three additional wells. The compression facilities on location have a current capacity of up to approximately 7 Mmcf/d and the Corporation expects to have the ability to increase its compression capacity as warranted in order to handle increased production as more wells come online.

NY Marcellus Shale

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 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 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. See “*Commitments and Contingencies – New York – Trenton-Black River Well Units*”.

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%.

At June 30, 2009, net production from Trenton-Black River formation was approximately 0.8 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. See “*Commitments and Contingencies – New York – Trenton-Black River Well Units*”.

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% 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.

West Virginia

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 \$12,946,000 and recognized a loss of \$9,728,000 on the transaction. Included in the transaction were 36,535 gross (14,717 net) leasehold acres, 112 gross (59.59 net) wells and a 63% interest in the Blue Jacket gathering system. The property sale represented approximately 55% of the Corporation’s North American proved oil and natural gas reserves at December 31, 2008, and approximately 50% of its daily natural gas production at the time of the sale. The

Corporation intends to invest the proceeds of the transaction primarily to further its development activities in the Marcellus Shale in Pennsylvania and New York.

Canada

Saskatchewan

On August 28, 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. Drilling operations on the first earning well are expected to commence during August 2009. The Corporation estimates it will spend a minimum amount of approximately \$5.0 million on this project. The project lies within the favorable Saskatchewan province royalty area. 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 Gaspe Peninsula (covering Silurian and Devonian targets). Within Gastem Inc.’s St. Lawrence Lowlands leasehold acreage, Forest Oil Corporation recently spent CDN\$10 million to earn a 60% interest in what is now referred to as the Yamaska project. The Corporation went non-consent on the first two exploratory wells drilled within the Yamaska project, but has elected to participate in future operations with a 5% working interest.

Yemen – Block 41

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 Production Sharing Agreement (“**Block 41 PSA**”) covering approximately 5,600 square kilometers (1.4 million acres), which is located onshore in Yemen. The Corporation is the operator of Block 41 and is currently evaluating the Al Waya field to determine the additional work required to substantiate developing this field.

In addition, from mid-2008 through the first quarter of 2009, the Corporation drilled four exploratory wells (Al Waya #2, Kaninah #1, West Mahrawa #2 and Mukulla #1) on Block 41, all of which were non-commercial despite having encouraging oil and natural gas shows. 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 natural gas resources yet to be exploited on Block 41 beyond the prospects identified on 2D seismic to date.

OGMC Default

As at June 30, 2009, OGMC, a non-operated joint interest owner in Block 41, owed the Corporation \$4,682,000, 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 \$5,591,000 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.

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 79,345 square kilometers (30,635 square miles) in northwest Ethiopia. Terms of the PSA include an initial three-year exploration period that includes a minimum financial commitment of \$3,000,000 to drill one exploratory well and to acquire a minimum of 200 kilometers of 2D seismic. In the event the Company makes a commercial discovery, the initial percentage split of profit oil and/or gas will be 80% for Epsilon and 20% for the Ministry.

Oman - Block 55

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 that covers approximately 7,564 square kilometers (1,869,105 acres) 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.

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 aforementioned up-front costs, the Corporation does not expect to spend a significant amount of additional capital towards this concession until 2010 or later.

Results of Operations

(Amounts are rounded to thousands of U.S. dollars, unless stated otherwise)

The following discussion encompasses the Corporation’s revenues and costs of operations. Unless noted otherwise, the discussion pertains to the Corporation’s Appalachian basin segment in the United States, as all other identified geographical operating segments were essentially in the start-up phase during the presented periods and had no reportable revenues or operating costs during the presented periods.

Revenues

Since the commencement of the Corporation’s first natural gas production during the third quarter of 2006, the Corporation’s oil and natural gas revenues have consisted solely of natural gas production from its oil and natural gas property interests within the Appalachian basin of the United States. Summary data follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Summary Revenue Data:				
Net production (Mcf).....	172,540	173,226	374,247	321,425
Realized average natural gas price per MCF.....	\$ 6.52	\$ 11.97	\$ 3.86	\$ 10.88
Net oil and natural gas revenues	\$ 671,000	\$ 2,374,000	\$ 2,307,000	\$ 3,911,000
End of period net natural gas production exit rate (Mcf/d) ⁽¹⁾	1,040	2,023	1,040	2,023
Natural gas gathering fees	\$ 61,000	\$ -	\$ 133,000	\$ -

Notes:

- (1) Period end net natural gas production rates for the three and six months ended June 30, 2009 exclude the Corporation's West Virginia properties, which were sold to an unrelated third party on June 16, 2009.

Revenues: Three Months Ended June 30, 2009 and 2008

Oil and natural gas revenues were \$671,000 for the second quarter of 2009, a decrease of \$1,703,000 for the same period of 2008. The decrease was primarily due to a 46% decrease in the average natural gas price received during the second quarter of 2009 as compared to the same period of 2008. The operator of the Corporation's West Virginia properties also marketed the Corporation's pro-rata share of natural gas production. During the first quarter of 2009, a substantial portion of the Corporation's pro-rata share of natural gas produced in West Virginia was included in natural gas volumes sold by the operator that were subject to hedges containing higher than market gas prices. Those hedges expired during April 2009 and after the expiration date the operator sold the Corporation's pro-rata share of its West Virginia production on the spot market at substantially lower natural gas prices. The Corporation produced a negligible amount of oil during the second quarter of 2009, as compared to the same period of 2008, when it produced 6,229 bbls of oil at an average price of \$87.16 per bbl (primarily from a small isolated fracture system in West Virginia). Natural gas gathering fees of \$61,000 for the second quarter of 2009 pertained to the Corporation's Blue Jacket gathering system in West Virginia that was sold during June 2009. There were no natural gas gathering fees during the same period of 2008.

Revenues: Six Months Ended June 30, 2009 and 2008

Oil and natural gas revenues were \$2,307,000 for the first six months of 2009, a decrease of \$1,604,000 from the same period of 2008. The decrease was primarily due to a 65% decrease in the average natural gas price received during the first six months of 2009 as compared to the same period of 2008. In addition, the Corporation had produced a negligible amount of oil during the first six months of 2009, as compared to the same period of 2008, when it produced 9,098 bbls of oil at an average price of \$85.99 per bbl (primarily from a small isolated fracture system in West Virginia). Natural gas gathering fees of \$133,000 for the first six months of 2009 pertained to the Corporation's Blue Jacket gathering system in West Virginia that was sold during June 2009. There were no natural gas gathering fees during the same period of 2008.

Operating Costs and Expenses

Operating costs and expenses include project operating costs, amortization, depletion and accretion ("DD&A") and general and administrative ("G&A") expenses. For the three and six months ended June 30, 2009 and 2008, respectively, the majority of operating costs and expenses pertained to the Corporation's Appalachian basin business segment. A summary of the components of the costs of operations and expenses for each indicated period follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>Project operating costs:</i>				
Production taxes.....	\$ 54,000	\$ 107,000	\$ 117,000	\$ 174,000
Lease operating expenses.....	331,000	280,000	734,000	494,000
Royalties	-	-	1,000	-
Total project operating costs..	<u>385,000</u>	<u>387,000</u>	<u>852,000</u>	<u>668,000</u>
<i>Impairments:</i>				
Impairment of unproved properties	2,172,000	-	2,172,000	-
<i>Amortization, Depletion and Accretion:</i>				
Amortization	27,000	36,000	56,000	48,000
Depletion.....	580,000	541,000	1,244,000	954,000
Accretion.....	5,000	3,000	9,000	6,000
Total DD&A	<u>612,000</u>	<u>580,000</u>	<u>1,309,000</u>	<u>1,008,000</u>
<i>General & Administrative:</i>				
General G&A	1,039,000	2,017,000	1,977,000	3,245,000
Non-monetary compensation ...	127,000	620,000	495,000	930,000
Total G&A	<u>1,166,000</u>	<u>2,637,000</u>	<u>2,472,000</u>	<u>4,175,000</u>
Total operating costs and Expenses	<u>\$ 4,335,000</u>	<u>\$ 3,604,000</u>	<u>\$ 6,805,000</u>	<u>\$ 5,851,000</u>

Operating Costs and Expenses: Three Months Ended June 30, 2009 and 2008

Project Operating Costs

Project operating costs consist of production taxes, lease operating expenses and royalties. Project operating costs during the second quarter of 2009 were \$385,000, a decrease of \$2,000 from \$387,000 incurred during the same period of 2008. A discussion of each category comprising project operating costs follows:

- Production taxes were \$54,000 during the second quarter of 2009, a decrease of \$53,000 from \$107,000 incurred during the same period of 2008. The decrease was primarily due to a 46% decrease in the average natural gas price received during the second quarter of 2009 as compared to the same period of 2008. Production taxes are assessed by the state in which production occurs. Substantially all production taxes apply to West Virginia, where the production tax rate is approximately 5% of gross revenues. There are no production taxes in New York. Production taxes will also vary from period-to-period based on production levels by state and/or oil and natural gas prices.
- Lease operating expenses were \$331,000 (\$1.92/Mcfe) during the second quarter of 2009, an increase of \$51,000 over \$280,000 (\$1.61/Mcfe) incurred in the same period of 2008. During the second quarter of 2009, the Corporation had more wells on-line, as compared to the same period of 2008. Lease operating expenses include the operating costs necessary to extract gas and transport it to a sales point. Lease operating expenses per Mcfe will vary from period-to-period based on the level of oil and or natural gas production and related expenses. As the Corporation increases its operations, lease operating expenses are expected to increase accordingly in future periods.

Impairment of Unproved Property

During the second quarter 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. There were no unproved property impairments during the same period of 2008.

Amortization, Depletion and Accretion

Amortization expense was \$27,000 during the second quarter of 2009, a decrease of \$9,000 from the \$36,000 incurred during the same period of 2008. Substantially all amortization expense amounts pertained to the Corporation's office furniture and fixtures, computer hardware and computer software.

Depletion expense was \$580,000 (\$3.34/Mcfe) during the second quarter of 2009, an increase \$39,000 over \$541,000 (\$3.75/Mcfe) incurred in the same period of 2008. Depletion expense will fluctuate from period-to-period depending upon production levels, the amount of proved reserves, the level of capital expenditures and other factors. As at June 30, 2009 and December 31, 2008, in accordance with the full cost method for depletion, the Corporation excluded unproved property costs of \$43,202,000 and \$45,055,000, respectively, from the Corporation's capitalized proved property depletion base for its Appalachian basin properties in the United States. No other cost centers were subject to depletion at June 30, 2009 or June 30, 2008.

Accretion expense was \$5,000 during the second quarter of 2009, an increase of \$2,000 over \$3,000 incurred during the same period of 2008. All accretion expense amounts pertain to the amortization of the Corporation's asset retirement obligations.

General and Administrative

General G&A was \$1,039,000 during the second quarter of 2009, a decrease of \$978,000 from \$2,017,000 incurred during the same period of 2008. General G&A consists of general corporate expenses other than stock based compensation and are comprised primarily of compensation, legal, professional and other consulting services, travel and other related corporate costs. During the second quarter of 2009, the Corporation made a strong effort to control its General G&A costs and to focus primarily on developing its North American assets, as compared to the same period of 2008, when the Corporation was focused on aggressively expanding both its international and North American operations.

Non-monetary compensation was \$127,000 during the second quarter of 2009, a decrease of \$493,000 from \$620,000 incurred during the same period of 2008. Non-monetary compensation comprises stock options granted to certain employees, consultants and directors of the Corporation valued utilizing the Black-Scholes option pricing model and are amortized to G&A expense over their respective vesting periods. The amount of non-monetary compensation recorded is dependent on the amortization of unvested options outstanding during each reporting period.

Operating Costs and Expenses: Six Months Ended June 30, 2009 and 2008

Project Operating Costs

Project operating costs during the first six months of 2009 were \$852,000 an increase of \$184,000 over \$668,000 incurred during the same period of 2008. A description of each category comprising project operating costs follows:

- Production taxes were \$117,000 during the six months ended June 30, 2009, a decrease of \$57,000 from \$174,000 incurred during the same period of 2008. The decrease was primarily due to a 65% decrease in the average natural gas price received during the first six months of 2009 as compared to the same period of 2008. Substantially all production taxes apply to West Virginia, where the production tax rate is approximately 4% of gross revenues. In New York,

the Corporation's wells are exempt from production taxes. Production taxes will also vary from period-to-period based on production levels by state and/or oil and natural gas prices.

- Lease operating expenses were \$734,000 (\$1.96/Mcfe) during the six months ended June 30, 2009, an increase of \$240,000 over \$494,000 (\$1.54/Mcfe) incurred in the same period of 2008. During the first six months of 2009, the Corporation had more wells on-line, as compared to the same period of 2008. Lease operating expenses per Mcfe will vary from period-to-period based on the level of oil and or natural gas production and related expenses. As the Corporation increases its operations, lease operating expenses are expected to increase accordingly in future periods.
- Royalty expense was \$1,000 during the six months ended June 30, 2009, as compared to nil during the same period of 2008. Royalties reflect amounts paid to New York royalty owners for wells in which the Corporation is not yet classified as an integrated participating owner, but the Corporation is required to pay its share of royalties applicable to integrated royalty owners. See "*Contractual Obligations and Contingencies*".

Impairment of Unproved Property

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. There were no unproved property impairments during the same period of 2008.

Amortization, Depletion and Accretion

Amortization expense was \$56,000 during the six months ended June 30, 2009, an increase of \$8,000 over the \$48,000 incurred during the same period of 2008. Substantially all amortization expense amounts pertained to the Corporation's office furniture and fixtures, computer hardware and computer software.

Depletion expense was \$1,244,000 (\$3.32/Mcfe) during the six months ended June 30, 2009, an increase of \$290,000 over \$954,000 (\$2.97/Mcfe) incurred in the same period of 2008. Depletion expense was progressively higher primarily due to a higher per Mcfe depletion rate that was coupled with higher production volumes period-over-period. Depletion expense will fluctuate from period-to-period depending upon production levels, the amount of proved reserves, the level of capital expenditures and other factors.

Accretion expense was \$9,000 during the six months ended June 30, 2009, an increase of \$3,000 over \$6,000 incurred during the same period of 2008. All accretion expense amounts pertain to the amortization of the Corporation's asset retirement obligations.

General and Administrative

General G&A was \$1,977,000 during the six months ended June 30, 2009, a decrease of \$1,268,000 from \$3,245,000 incurred during the same period of 2008. During the first six months of 2009, the Corporation made a strong effort to control its General G&A costs and to focus primarily on developing its North American assets, as compared to the same period of 2008, when the Corporation was focused on aggressively expanding both its international and North American operations.

Non-monetary compensation was \$495,000 during the six months ended June 30, 2009, a decrease of \$435,000 over \$930,000 incurred during the same period of 2008. Non-monetary compensation comprises stock options granted to certain employees, consultants and directors of the Corporation valued utilizing the Black-Scholes option pricing model and are amortized to G&A expense over their respective vesting periods. The amount of non-monetary compensation recorded is dependent on the amortization of unvested options outstanding during each reporting period.

Other Income or Expense

Other income or expense was a negative \$9,843,000 during the second quarter of 2009, as compared to a positive \$5,388,000 during the same period of 2008. During the second quarter of 2009, the Corporation recorded a net loss of \$9,728,000 on the sale of its oil and natural gas property interests in West Virginia and incurred a net amount of \$115,000 of interest expense. During the second quarter of 2008, the Corporation recorded a gain on the sale of non-core unproved leasehold in the Appalachian basin of \$5,086,000 and recorded net interest income of \$302,000. The amount of other income or expense will vary period-to-period based on gain or losses on the sale of assets, if any, interest rates, the level of cash and cash equivalents, the amount of long-term debt and other factors.

Other income or expense was a negative \$9,915,000 during the six months ended June 30, 2009, as compared to a positive \$5,815,000 during the same period of 2008. During the first six months of 2009, the Corporation recorded a net loss of \$9,728,000 on the sale of its oil and natural gas property interests in West Virginia and incurred a net amount of \$187,000 of interest costs. During the six months ended June 30, 2008, the Corporation recorded a gain on the sale of non-core unproved leasehold in the Appalachian basin of \$5,085,000 and recorded net interest income of \$730,000.

Income Taxes

During the second quarter and the first six months of 2009, the Corporation recorded an income tax recovery of \$2,600,000 pertaining to the sale of its oil and natural gas property interests in West Virginia. Determination of the Corporation's income tax and other tax liabilities requires the interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ from that estimated and recorded by the Corporation's management.

Comprehensive Income (Loss)

The Corporation's results of operations may vary significantly from period to period based on the factors discussed in "Risk Factors" within the Corporation's Annual Information Form dated as of April 1, 2009 and on other factors such as the Corporation's exploratory and development drilling success. Therefore, the results of any one period may not be indicative of future results.

The Corporation's comprehensive income (loss) consists of its reported net income (loss) plus unrealized foreign currency gains and losses. The Corporation's comprehensive income (loss) for each indicated period follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Comprehensive loss:				
Net loss.....	\$ (10,845,000)	\$ 4,158,000	\$ (11,680,000)	\$ 3,874,000
Other comprehensive loss:				
Unrealized foreign exchange losses ..	2,183,000	549,000	1,226,000	(1,052,000)
Balance, end of period.....	<u>\$ (8,662,000)</u>	<u>\$ 4,707,000</u>	<u>\$ (10,454,000)</u>	<u>\$ 2,822,000</u>

Liquidity and Capital Resources

Working Capital

At June 30, 2009 and December 31, 2008, the Corporation had working capital surplus of \$9,842,000 and \$15,862,000, respectively, inclusive of restricted cash. The Corporation's working capital will fluctuate from period-to-period, depending on the timing of cash receipts and payments, the pace of its operations,

investing, financing activities and other factors that may directly affect components of the Corporation's working capital.

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 – 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:

	June 30, 2009	December 31, 2008
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>

Cash Flow Discussion and Analysis

A detailed discussion of the Corporation's cash flows from operations, investing activities, and financing activities follows:

Cash Flow from Operations

During the second quarter of 2009, the Corporation received \$2,042,000 from its operating activities, as compared to \$4,095,000 used in its operating activities in the same period of 2008. Cash received from operating activities during the second quarter of 2009 included positive non-cash adjustments of \$12,887,000, which was partially offset by a net loss of \$10,845,000. Cash used in operating activities during the second quarter of 2008 included total negative non-cash adjustments of \$8,253,000, which was partially offset by \$4,158,000 of net income.

During the six months ended June 30, 2009, the Corporation used \$4,232,000 in its operating activities, as compared to \$4,594,000 for the same period of 2008. Cash used in operating activities during the six months ended June 30, 2009 included total positive non-cash adjustments of \$7,448,000, which were offset by a net loss of \$11,680,000. Cash used in operating activities during the six months ended June 30, 2008 included total negative non-cash adjustments of \$8,469,000, which was partially offset by \$3,875,000 of net income.

Cash Flow from Investing Activities

During the second quarter of 2009, the Corporation received \$25,405,000 from its investing activities, as compared to \$20,811,000 used in its investing activities during the same period of 2008. During the second quarter of 2009, the Corporation invested \$10,891,000 in its oil and natural gas properties and \$65,000 in other property, equipment and miscellaneous assets. Also during the second quarter of 2009, the Corporation received a net amount of \$12,946,000 from the sale of its oil and natural gas property interests in West Virginia and reclassified \$23,415,000 of cash and cash equivalents from restricted cash pertaining to its loan facilities and line of credit. During the second quarter of 2008, the Corporation invested \$9,946,000 in its oil and natural gas properties and \$79,000 in other property, equipment and miscellaneous assets. Also during the second quarter of 2008, the Corporation received \$6,714,000 from the sale of non-core unproved leasehold in the Appalachian basin and reclassified \$17,500,000 of cash and cash equivalents to restricted cash pertaining to a line of credit for its operations in the Republic of Yemen.

During the six months ended June 30, 2009, the Corporation received \$25,789,000 from its investing activities, as compared to \$27,604,000 used in its investing activities for the same period of 2008. During the first six months 2009, the Corporation invested \$19,190,000 in its oil and natural gas properties and \$64,000 in other property, equipment and miscellaneous assets. Also during the first six months of 2009, the Corporation received a net amount of \$12,946,000 from the sale of its oil and natural gas property interests in West Virginia and reclassified \$32,097,000 of cash and cash equivalents from restricted cash pertaining to its loan facilities and line of credit. During the six months ended June 30, 2008, the Corporation invested \$16,780,000 in its oil and natural gas properties and \$164,000 in other property, equipment and miscellaneous assets. Also during the six months ended June 30, 2008, the Corporation received \$6,840,000 from the sale of non-core unproved leasehold in the Appalachian basin and reclassified \$17,500,000 of cash and cash equivalents to restricted cash pertaining to a line of credit for its operations in the Republic of Yemen.

Cash Flows from Financing Activities

During the second quarter of 2009, the Corporation used \$16,348,000 in its financing activities, as compared to \$73,000 received from its financing activities during the same period of 2008. During the second quarter of 2009, the Corporation paid down its loan facilities by \$16,355,000 and received a net amount of 7,000 from changes in its long-term debt. During the second quarter of 2008, the Corporation received \$43,000 from the exercise of warrants covering 17,000 Common Shares and issued notes payable of \$30,000 covering the installment purchase of a copier in its Toronto office and a vehicle purchase for its Abu Dhabi office.

During the six months ended June 30, 2009, the Corporation used \$10,546,000 in its financing activities, as compared to \$73,000 received from its financing activities during the same period of 2008. During the six months ended June 30, 2009, the Corporation paid down its loan facilities by \$10,550,000 and received a

net amount of \$4,000 from changes in its long-term debt. During the six months ended June 30, 2008, the Corporation received \$43,000 from the exercise of warrants covering 17,000 Common Shares and issued notes payable of \$30,000 covering the installment purchase of a copier in its Toronto office and a vehicle purchase for its Abu Dhabi office.

Effect of Currency Rates on Cash and Cash Equivalents

The effect of currency rates on cash and cash equivalents was a positive \$2,183,000, positive \$590,000, positive \$1,226,000 and a negative \$1,011,000 for the three months ended June 30, 2009, three months ended June 30, 2008, six months ended June 30, 2009 and the six months ended June 30, 2008, respectively. The effect of currency rates on cash and cash equivalents will vary from period-to-period due primarily to the level of the Corporation's cash and cash equivalents held in foreign currencies and associated exchange rates.

Capitalization, Common Shares and Options

At June 30, 2009, the Corporation's share capital was \$138,259,000, consisting of 50,315,323 Common Shares issued and outstanding. Also at June 30, 2009, the Corporation had outstanding unexercised options covering 2,983,402 Common Shares at a weighted average exercise price of approximately CDN\$2.52 per Common Share and a weighted average remaining contractual term of 7.11 years. Of those options, 2,131,935 were fully vested and 851,467 were unvested.

2009 Capital Expenditures

The amount of planned capital expenditures for 2009 is mostly discretionary. As such, the level of the Corporation's capital expenditures is a "fluid" amount and may increase or decrease due to factors such as available capital, operational success or failure, commodity prices and the actual pace of operations. Highlights include:

- Marcellus Shale - \$21,600,000; includes drilling at least two wells in Highway 706, hooking up wells in Highway 706 for production, constructing production infrastructure in Highway 706, and drilling four wells within the Park Place project in New York.
- Canada - \$2,100,000 to drill the first earning well on the Corporation's Bakken shale acreage in the province of Saskatchewan.
- Yemen - \$3,400,000; includes drilling one exploratory well.
- Oman - \$2,900,000; includes a \$2,000,000 signing bonus pertaining to Block 55.

Future Capital Requirements

Mid 2008 through the first half of 2009 has resulted in one of the most volatile periods in the oil and natural gas industry. During this time, commodity prices for oil and natural 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.

The Corporation's current level of capital expenditures is based on currently in hand available capital resources. The Corporation may obtain funds for future capital investments beyond its currently available capital resources 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.

Going Concern

The unaudited consolidated financial statements of the Corporation for the three and six months ended and as at June 30, 2009 and the three and six months ended and as at June 30, 2008, 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 \$9.8 million (inclusive of restricted cash), and, for the first six months of 2009, incurred a net loss of \$11.7 million and had negative cash flow from operations of \$4.2 million. The Corporation sold its West Virginia properties for a net amount of \$12.9 million during June 2009 and incurred a net loss of \$9.7 million on the transaction. The property sale represented approximately 55% of the Corporation's North American proved oil and natural gas reserves at December 31, 2008, and approximately 50% of its daily natural gas production at the time of the sale. The Corporation intends to invest the proceeds of the transaction primarily to further its development activities in the Marcellus Shale in Pennsylvania and New York. Also during the first six months of 2009, the Corporation wrote off \$2.2 million of capital costs it incurred pertaining to Block 41 in Yemen, where it drilled an exploratory dry hole. 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 unaudited consolidated financial statements of the Corporation for the three and six months ended and as at June 30, 2009 and the three and six months ended and as at June 30, 2008, do not include any adjustments that might result if the Corporation is unable to continue as a going concern. Such adjustments could be material.

Reportable Geographical Operating Segments

As of June 30, 2009, the Corporation held interests in the following countries: United States, Canada, Yemen, Ethiopia, and Oman. From its inception through the first six months of 2009, the Corporation's oil and natural gas revenues have been derived solely from the Appalachian basin in the United States.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Reportable Segments:				
United States:				
Revenues	\$ 732,000	\$ 2,374,000	\$ 2,440,000	\$ 3,911,000
Operating costs.....	\$ 385,000	\$ 387,000	\$ 852,000	\$ 668,000
Capital expenditures.....	\$ 7,163,000	\$ 7,963,000	\$14,223,000	\$15,671,000
Canada:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 40,000	\$ -	\$ 50,000	\$ -
Yemen:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 300,000	\$ 4,511,000	\$ 2,172,000	\$ 5,146,000
Ethiopia:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 644,000	\$ 12,000	\$ 230,000	\$ 12,000
Oman:				
Revenues	\$ -	\$ -	\$ -	\$ -
Operating costs.....	\$ -	\$ -	\$ -	\$ -
Capital expenditures.....	\$ 128,000	\$ 128,000	\$ 2,737,000	\$ 128,000

Selected Financial Information

Selected financial information follows (amounts rounded to thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Statement of operations:				
Revenues	\$ 733,000	\$ 2,374,000	\$ 2,440,000	\$ 3,911,000
Cost of operations	4,335,000	3,604,000	6,805,000	5,851,000
Operating loss.....	(3,602,000)	(1,230,000)	(4,365,000)	(1,940,000)
Gain or (loss) on sale of assets.....	(9,728,000)	5,086,000	(9,728,000)	5,085,000
Other income (loss).....	(115,000)	302,000	(187,000)	730,000
Net income (loss) before income taxes.....	(13,445,000)	4,158,000	(14,280,000)	3,875,000
Income tax recovery.....	2,600,000	-	2,600,000	-
Net income (loss).....	<u>\$ (10,845,000)</u>	<u>\$ 4,158,000</u>	<u>\$ (11,680,000)</u>	<u>\$ 3,875,000</u>
Common Share data:				
Basic and fully diluted income (loss) per share	\$ (0.21)	\$ 0.09	\$ (0.23)	\$ 0.08
Basic weighted number of shares outstanding.....	50,315,323	45,703,000	50,315,323	45,700,000
Diluted shares outstanding.....	50,315,323	47,715,000	50,315,323	47,715,000
Dividends per share.....	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Cash Flows:				
Net cash provided by (used in) operating activities	\$ 2,042,000	\$ (4,095,000)	\$ (4,232,000)	\$ (4,594,000)
Net cash provided by (used in) Investing activities	\$ 25,405,000	\$ (20,811,000)	\$ 25,790,000	\$ (27,604,000)
Net cash provided by (used in) financing activities	\$ (16,348,000)	\$ 73,000	\$ (10,546,000)	\$ 73,000
Effect of currency rates on cash and cash equivalents.....	\$ 2,183,000	\$ 590,000	\$ 1,226,000	\$ (1,011,000)
			June 30, 2009	December 31, 2008
Balance Sheet:				
Total assets			\$ 105,372,000	\$ 124,061,000
Current liabilities.....			\$ 17,786,000	\$ 12,347,000
Long-term debt.....			\$ 23,000	\$ 30,000
Other liabilities			\$ 228,000	\$ 250,000
Total liabilities			\$ 18,037,000	\$ 12,627,000
Shareholders' equity.....			\$ 87,335,000	\$ 111,434,000

Summary of Quarterly Results

Summary quarterly information is presented in the table below. All amounts rounded to thousands of dollars, except for per share amounts.

	Quarter Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
2009:					
Total revenues	\$ 1,708,000	\$ 733,000			
Net income or (loss)	\$ (835,000)	\$ (10,845,000)			
Net income per share	\$ (0.02)	\$ (0.21)			
Total assets	\$ 135,135,000	\$ 105,372,000			
Long-term debt	\$ 16,000	\$ 23,000			
Shareholders' equity	\$ 95,870,000	\$ 87,335,000			
Dividends paid	\$ -	\$ -			
2008:					
Total revenues	\$ 1,537,000	\$ 2,374,000	\$ 2,476,000	\$ 1,913,000	\$ 8,300,000
Net income or (loss)	\$ (284,000)	\$ 4,158,000	\$ (148,000)	\$ (37,414,000)	\$ (33,688,000)
Net income per share	\$ (0.01)	\$ 0.09	\$ 0.00	\$ (0.79)	\$ (0.71)
Total assets	\$ 116,969,000	\$ 124,061,000	\$ 154,013,000	\$ 134,070,000	\$ 134,070,000
Long-term debt	\$ -	\$ 30,000	\$ 24,000	\$ 19,000	\$ 19,000
Shareholders' equity	\$ 106,064,000	\$ 111,434,000	\$ 142,079,000	\$ 97,295,000	\$ 97,295,000
Dividends paid	\$ -	\$ -	\$ -	\$ -	\$ -
2007:					
Total revenues	\$ 883,000	\$ 1,085,000	\$ 678,000	\$ 1,024,000	\$ 3,670,000
Net income or (loss)	\$ 285,000	\$ (98,000)	\$ (337,000)	\$ (2,074,000)	\$ (2,224,000)
Net income per share	\$ 0.01	\$ 0.00	\$ (0.01)	\$ (0.08)	\$ (0.08)
Total assets	\$ 21,812,000	\$ 35,522,000	\$ 65,937,000	\$ 117,323,000	\$ 117,323,000
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Shareholders' equity	\$ 20,058,000	\$ 33,512,000	\$ 34,614,000	\$ 107,640,000	\$ 107,640,000
Dividends paid	\$ -	\$ -	\$ -	\$ -	\$ -

Critical Accounting Estimates

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reported periods. By their nature, these estimates, including those related to future cash flows are subject to measurement uncertainty and the impact on the current and future consolidated financial statements resulting from changes in such estimates could be significant. Due to the use of estimates, actual results could differ significantly from those reported. Management believes the estimates used within the consolidated financial statements are reasonable as of the date of these consolidated financial statements.

The amounts recorded for depletion and amortization of property and equipment, stock based compensation, stock options, warrants, income taxes, asset retirement obligations, and other accruals are based on estimates. The Ceiling Test is based on estimates of oil and natural gas reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. Stock compensation, stock options, and warrants are valued using the Black-Scholes option pricing model which includes volatility assumptions that contain measurement uncertainty. The valuation allowance for income taxes is subject to measurement uncertainty pertaining to projected future production levels, future capital expenditures, future commodity prices and future operating costs, all of which could vary significantly from actual

results. Asset retirement obligations contain plugging and abandonment estimates, productive well life estimates, and other factors for which actual results may vary significantly from original estimates. Also see Note 3 – “*Accounting Pronouncements*” within the annual consolidated financial statements for the year ended December 31, 2008.

Full Cost Accounting

The Corporation utilizes the full cost method of accounting for its crude oil and natural gas properties. Accordingly, all costs related to the exploration for and development of crude oil and natural gas reserves, whether successful or not, are capitalized. The capitalized costs and future development costs are depleted on the unit-of-production method based on estimated proved reserves. Costs of significant unproved properties, net of impairments, are excluded from the amortization, depletion and accretion calculation. Properties excluded from the depletion calculation are assessed periodically to ascertain whether impairment has occurred.

The carrying amount of crude oil and natural gas properties may not exceed their recoverable amount (the “**Ceiling Test**”). The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost or market of unproved properties exceeds the carrying value of the crude oil and natural gas assets. If the carrying value of the crude oil and natural gas assets is assessed to not be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market of unproved properties. The cash flows are estimated using future product prices and costs, which are discounted using a risk-free rate of interest. At December 31, 2008, the Ceiling Test for the Corporation’s Yemen oil and natural gas properties failed, resulting in an impairment of \$34,099,000. In addition, during the first six months of 2009, the Corporation recorded an impairment of \$2,172,000 pertaining to Block 41 in Yemen, where it drilled an exploratory dry hole..

Proceeds from the sale of oil and natural gas property interests are credited against the applicable country cost center. A gain or loss is recognized only if the resulting credit of proceeds from the sale results in a change to the depletion rate of the associated country cost center of 20% or more. On June 16, 2009, the Corporation recognized a loss on the sale of its West Virginia oil and natural gas property interests of \$9,728,000 after it was determined that the change in depletion rate resulting from the proceeds of the sale of the Corporation’s oil and natural gas property interests in West Virginia exceeded the aforementioned 20% threshold.

The alternative method of accounting for crude oil and natural gas properties is the successful efforts method. The major difference in applying the successful efforts method is that exploratory dry holes and geological and geophysical exploration costs are charged against net earnings in the year they are incurred rather than being capitalized. The use of the full cost method usually results in higher capitalized costs and higher DD&A rates than the successful efforts method.

Crude Oil and Natural Gas Reserves

The Corporation retains qualified independent reserves evaluators to estimate the Corporation's proved and probable crude oil and natural gas reserves. The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, expected rates of production and the timing of future capital expenditures, all of which are subject to major uncertainties and interpretations. The Corporation expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of DD&A and for determining potential asset impairment. For example, a revision to the reserve estimate would result in a higher or lower DD&A charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of crude oil and natural gas properties.

When estimating oil and natural gas reserves and their associated net cash flows, there are numerous factors that contain significant measurement uncertainties that are beyond the Corporation’s control. Those factors

include, but are not limited to, volumetric reserve estimates, future commodity pricing, future operating costs and the timing of and amount of future capital costs. When assessing the fair market value of reserves, additional factors must be considered such as current market conditions, credit markets, location of reserves, classification of reserves based on risk of recovery, political risk and other factors, all of which may contribute to significant measurement uncertainty. Due to the complexity involved, reserve estimates and fair market value estimates will vary greatly from one reserve estimator to another.

Asset Retirement Obligations (“ARO”)

The Corporation is required to recognize a liability for future abandonment and site restoration costs associated with the Corporation's crude oil and natural gas properties in accordance with existing laws, contracts or other policies. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows, if any. Actual costs incurred upon settlement of the obligations are charged against the liability. The ARO is based on estimated costs, taking into account the anticipated method and extent of restoration consistent with legal requirements, technological advances, industry practices and the possible use of the site. Since these estimates are specific to the sites involved, there are many individual assumptions underlying the Corporation's total ARO amount. These individual assumptions can be subject to change based on experience. Restoration technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. The Corporation estimates future retirement costs based on current estimates adjusted for inflation and credit risk, which are expected to be incurred at the end of the associated properties economic life. The estimates for inflation and credit risk used to calculate ARO are also subject to measurement uncertainty. The Corporation assumed an estimated credit adjusted risk-free rate calculated on a yearly basis and an estimated inflation rate of 2% to calculate the net present value of the asset retirement obligations. The total future ARO was estimated based on the Corporation's net ownership interest in all wells and facilities in the Appalachian basin in the U.S., 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 ARO for wells drilled on its projects in the Appalachian basin to be \$227,500 and \$319,763 at June 30, 2009 and December 31, 2008, respectively, based on estimated total undiscounted future liabilities of \$717,000 and \$1,075,126 at June 30, 2009 and December 31, 2008, respectively. The reduction of ARO at June 30, 2009, as compared to December 31, 2008, was the direct result of the sale of the Corporation's West Virginia assets that was completed during June 2009.

No provision was made for asset retirement obligations with respect to the Corporation's Yemen properties, where the contracts with the government of Yemen stipulate that all property and equipment will be transferred to the government of Yemen at the end of the contract term. Asset retirement activities during the contract term in Yemen, if any, are fully recoverable from the proceeds of cost oil. The EPSA in Oman contains provisions whereby the operator must fund estimated abandonment costs during the five calendar years prior to the expiration of the EPSA. Since the Corporation has yet to commence drilling operations in Oman, there were no provisions made for ARO liabilities in Oman as of June 30, 2009.

Stock-Based Compensation

The Corporation records stock-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date using the Black-Scholes option pricing model and expensed over the vesting term of the option. The Corporation records the cumulative stock-based compensation as a contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated stock-based compensation for the exercised option. Any consideration received on the exercise of stock options is credited to share capital. The determination of stock-based compensation expense is based on assumptions regarding stock volatility, risk-free interest

rates and the term of the options. These assumptions, by their nature, are subject to measurement uncertainty. An increase in volatility, the risk-free rate or the term would increase the calculated expense.

Income Taxes

The determination of the Corporation's income and other tax liabilities requires the interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ from that estimated and recorded by the Corporation's management. A valuation allowance is recorded against any future income tax asset if the Corporation is not "more likely than not" to realize the tax deduction. The valuation allowance for income taxes, if any, is subject to measurement uncertainty pertaining to projected future production levels, future capital expenditures, future commodity prices and future operating costs, all of which could vary significantly from actual results.

International Financial Reporting Standards

In March 2007, the Canadian Institute of Chartered Accountants ("CICA") announced that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective January 1, 2011. IFRS will require increased financial statement disclosure.

Under IFRS, the primary audience is capital markets and, as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Corporation has begun developing its IFRS changeover plan, which includes project structure and governance, deployment of resources and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation is in the process of completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements. On July 23, 2009, the IASB passed an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption included in the passed exposure draft relates to full cost oil and gas accounting and is expected to result in a reduced administrative transition from the current Canadian AcG-16 to IFRS. It is anticipated that this passed exposure draft will not result in an amended IFRS 1 standard until late in 2009. The amendment will potentially permit the Corporation to apply IFRS prospectively to its full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Although IFRS uses conceptual framework similar to GAAP, differences in accounting policies will need to be addressed. One issue of primary concern is that under IFRS, oil and natural gas companies must use the IFRS compliant modified full cost method of accounting, as compared to the Full Cost Method of accounting currently utilized by the Corporation. If adoption to the Successful Effort Method is required, a conversion from the Full Cost Method of accounting to the Successful Efforts Method of accounting will likely have a material impact on the Corporation's consolidated financial statements. The Corporation has engaged a professional accounting firm to assist with the IFRS conversion process and is currently assessing the impact this and other IFRS related issues will have on its consolidated financial statements when the Corporation transitions to IFRS beginning January 1, 2010.

Changes in Accounting Policies, including Initial Adoption

The Corporation has reviewed all recently issued, but not yet adopted, accounting standards by CICA in order to determine their effects, if any, on the Corporation's results of operations or financial position. Based on that review, the Corporation believes none of the pronouncements, except for the conversion to IFRS that is scheduled to be effective January 1, 2011, will have a significant effect on current or future earnings or operations. As part of IFRS disclosure in 2011, the Corporation must show comparative information for 2010 in the basis of IFRS.

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 included 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. See the Note 3 “*Accounting Pronouncements*” in the Corporation’s 2009 consolidated financial statements.

Disclosure Controls and Procedures

The Corporation has evaluated the effectiveness of its disclosure controls and procedures and has concluded based on this evaluation that the disclosure controls and procedures are sufficiently effective to provide reasonable assurance that material information relating to the Corporation is made known to management and disclosed in accordance with applicable securities regulations.

The Chief Executive Officer and Chief Financial Officer, together with other members of management, having designed Internal Controls Over Financial Reporting (“**ICFR**”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP, have not identified any changes to the Corporation's internal control over financial reporting which would materially affect, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

During 2008, the Corporation documented and tested its entity level and process level controls covering ICFR reporting and concluded that such controls were effective. To help insure continued adherence to established internal controls and related policies, the Corporation has initiated an internal control testing program that will be conducted throughout 2009.

Commitments and Contingencies

Bakken Shale Drilling Commitment

The Corporation entered into an agreement with a 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 private company. The agreement was further amended on December 19, 2008, whereby the Corporation agreed to advance 100% of the funds required to drill the first earning well to the private company prior to September 1, 2009. 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. Drilling operations for the first earning well are expected to commence during August 2009.

Yemen- Block 41 PSA

In accordance with the Farm-in Agreement with 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 EPSA

On January 26, 2009, the Corporation was awarded Block 55, an onshore oil and natural gas concession in Oman that covers approximately 7,564 square kilometers (1,869,105 acres). Terms include an initial bonus payment of \$2,000,000, annual rental/training/data fees of \$250,000 for an initial three-year exploration period with a commitment to spend a minimum of \$25,500,000 during that period. 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 fully fund the exploitation of this concession.

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 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. Other than the aforementioned up-front costs, the Corporation does not currently expect to spend a significant amount of additional capital towards this concession until 2010 or later.

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 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.

Arbitration – Pinpoint

On November 5, 2008, 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 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 \$546,000 paid to Pinpoint near the time the Notice of Arbitration was filed and the \$613,000 remainder that the Corporation's contract operator asserts is not owed due to inadequate performance by Pinpoint, which remained unpaid at year end.

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 \$423,000. 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. Management estimates legal fees pertaining to this matter could be in the range of \$500,000 to \$700,000 if the arbitration takes place.

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.....	\$ 9,355,000	\$ 9,355,000	\$ -	\$ -	\$ -
Line of credit.....	8,635,000	8,635,000	-	-	-
Long-term debt.....	46,000	23,000	23,000		-
Operating leases	1,058,000	419,000	525,000	114,000	
Purchase obligations.....	2,079,000	2,079,000	-	-	-
Other long-term obligations ⁽¹⁾	29,319,000	-	29,319,000	-	-
Total	\$ 50,492,000	\$ 20,511,000	\$ 29,867,000	\$ 114,000	\$ -

Notes:

- (1) Includes \$25,500,000 pertaining to a three year work commitment for Block 55 in Oman and \$3,819,000 of costs pertaining to the Production Sharing Agreement in Ethiopia.

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.

Environmental Issues

Compliance with Environmental and Safety Regulations

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills and releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liabilities, and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects. The Corporation must also conduct its operations in accordance with various laws and regulations concerning occupational safety and health. Currently, the Corporation does not foresee expending material amounts to comply with occupational safety and health laws and regulations. However, since such laws and regulations are frequently changed, the Corporation is unable to predict the future effect of these laws and regulations.

Middle East and Africa

In emerging nations, such as Yemen, Oman and Ethiopia, where environmental regulations and legislation are evolving, many oil and natural gas exploration and production companies operate in accordance with standards prevailing in established oil and natural gas producing jurisdictions, such as Canada and the United States. The Corporation has yet to conduct any significant on the ground operations in Ethiopia, but intends to adhere to established industry practice standards upon the commencement of such operations.

The Corporation's activities in the Middle East and Africa are in predominately arid desert areas. As such, the environmental impact associated with exploration and production activity in these areas are significantly less than is typical for similar oil and natural gas exploration, development and production activities located in more temperate or tropical environments. The Corporation is committed to conducting its operations in the Middle East and Africa in accordance with environmental standards used by other major international oil and natural gas exploration and production companies. Generally, such standards meet or exceed those imposed by legislation and regulations in Yemen, Oman and Ethiopia.

North America

The Corporation's activities are subject to numerous federal, provincial and state laws and regulations concerning the storage, use and discharge of materials into the environment, the remediation of environmental impacts and other matters relating to environmental protection, all of which may adversely affect the Corporation's operations and the costs of doing business. Federal, provincial and state regulatory authorities also have established rules and regulations requiring permits for drilling, drilling bonds and reports concerning drilling and producing activities. Such regulations also cover the location of wells, the method of drilling and casing wells, the surface use and restoration of well locations, the plugging and abandoning of wells, and other matters. There can be no assurance that future legislation or administrative regulations or interpretations will not impose stricter requirements that could have an adverse impact on the operating costs of the Corporation and the oil and natural gas industry in general. The Corporation believes

it is in material compliance with existing environmental laws and regulations and does not currently believe that it will be required to expend material amounts to comply with existing environmental laws and regulations in the future.

Related Party Transactions

The Corporation reports its related party transactions on an exchange amount basis. 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.....	\$ 25,000	\$ 57,000

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 (\$780,000 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.....	\$ -	\$ -
Joint venture costs.....	\$ 32,000	\$ 77,000
Joint venture revenues.....	\$ 112,000	\$ 310,000
Accounts payable.....	\$ 13,000	\$ 15,000
Proceeds from sale of assets.....	\$ 780,000	\$ -

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.....	\$ 13,000	\$ 110,000
Joint venture costs.....	\$ 257,000	\$ 2,655,000
Joint venture revenues.....	\$ 367,000	\$ 902,000
Accounts payable.....	\$ -	\$ 75,000
Western Land Services:		
Lease brokerage services.....	\$ 291,000	\$ 1,668,000
Accounts payable.....	\$ 88,000	\$ 139,000