



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

**November 6, 2009**

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

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>	(unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents.....	\$ 12,655,191	\$ 8,233,442
Accounts receivable .....	1,106,884	7,139,107
Notes receivable .....	-	359,401
Assets held for sale (Note 12).....	1,138,042	-
Other current assets.....	99,176	262,979
Total current assets.....	14,999,293	15,994,929
<b>Property and equipment:</b>		
Net property and equipment (Note 3) .....	81,856,959	84,353,485
<b>Other assets:</b>		
Long term receivable (Note 7) .....	4,448,683	-
Restricted cash (Note 4) .....	2,144,770	33,703,308
Other deferred charges and miscellaneous assets.....	18,508	17,842
Total other assets.....	6,611,961	33,721,150
<b>Total assets.....</b>	<b>\$ 103,468,213</b>	<b>\$ 134,069,564</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities .....	\$ 9,968,111	\$ 14,636,468
Line of credit (Note 4) .....	7,500,000	19,184,134
Current portion of notes payable.....	23,206	15,574
Total current liabilities .....	17,491,317	33,836,176
<b>Long-term liabilities:</b>		
Notes payable.....	17,256	18,999
<b>Other liabilities:</b>		
Asset retirement obligations.....	229,531	319,763
Future income tax liabilities.....	-	2,600,000
Total other liabilities .....	229,531	2,919,763
<b>Total liabilities.....</b>	<b>17,738,104</b>	<b>36,774,938</b>
<b>Description of business and going concern (Note 1).....</b>		
<b>Commitments and contingencies (Note 7).....</b>		
<b>Related party transactions (Note 9).....</b>		
<b>Subsequent events (Note 12).....</b>		
<b>Shareholders' equity:</b>		
Share capital (Note 5) .....	138,258,979	138,259,259
Contributed surplus (Note 5).....	6,126,067	5,401,361
Deficit .....	(51,050,799)	(36,558,958)
Accumulated other comprehensive loss.....	(7,604,138)	(9,807,036)
Sub total .....	(58,654,937)	(46,365,994)
Total shareholders' equity.....	85,730,109	97,294,626
<b>Total liabilities and shareholders' equity.....</b>	<b>\$ 103,468,213</b>	<b>\$ 134,069,564</b>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Oil & gas revenues .....	\$ 606,563	\$ 2,475,823	\$ 2,913,112	\$ 6,386,741
Natural gas gathering fees .....	-	-	133,248	-
Total revenues .....	<u>606,563</u>	<u>2,475,823</u>	<u>3,046,360</u>	<u>6,386,741</u>
<b>Operating costs and expenses:</b>				
Project operating costs.....	187,787	671,095	1,040,180	1,339,454
Impairment of unproved properties (Note 3) .....	580,754	-	2,753,030	-
Depletion, depreciation and accretion ...	1,212,468	737,288	2,520,662	1,744,778
General and administrative.....	1,368,497	1,523,267	3,840,879	5,698,789
Total operating costs and expenses ...	<u>3,349,506</u>	<u>2,931,650</u>	<u>10,154,751</u>	<u>8,783,021</u>
<b>Operating loss</b> .....	<u>(2,742,943)</u>	<u>(455,827)</u>	<u>(7,108,391)</u>	<u>(2,396,280)</u>
<b>Other income (expense):</b>				
Interest and other income (expense).....	(54,525)	308,098	(240,786)	1,037,902
Gain (loss) on sale of assets (Note 3) ....	(14,178)	-	(9,742,665)	5,085,225
Total other income (expense)	<u>(68,703)</u>	<u>308,098</u>	<u>(9,983,451)</u>	<u>6,123,127</u>
<b>Net income (loss) before income taxes</b> ...	<u>(2,811,646)</u>	<u>(147,729)</u>	<u>(17,091,840)</u>	<u>3,726,847</u>
<b>Income taxes:</b>				
Income tax recovery (Note 6).....	-	-	2,600,000	-
<b>Net income (loss)</b> .....	<u>(2,811,646)</u>	<u>(147,729)</u>	<u>(14,491,840)</u>	<u>3,726,847</u>
<b>Retained earnings (Deficit), beginning of period</b> .....	<u>(48,239,153)</u>	<u>1,003,534</u>	<u>(36,558,958)</u>	<u>(2,871,042)</u>
<b>Retained earnings (Deficit), end of period</b> .....	<u>\$ (51,050,799)</u>	<u>\$ 855,805</u>	<u>\$ (51,050,799)</u>	<u>\$ 855,805</u>
<b>Basic net income (loss) per share</b> .....	\$ (0.06)	\$ (0.00)	\$ (0.29)	\$ 0.08
<b>Basic weighted average number of shares outstanding</b> .....	50,315,323	51,315,323	50,315,323	46,113,792
<b>Diluted net income (loss) per share</b> .....	\$ (0.06)	\$ (0.00)	\$ (0.29)	\$ 0.07
<b>Diluted average number of shares outstanding</b> .....	50,315,323	51,315,323	50,315,323	51,315,323

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Cash flows from operating activities:</b>				
Net income (loss) for the period	\$ (2,811,646)	\$ (147,729)	\$ (14,491,840)	\$ 3,726,847
Items not involving cash:				
Depletion, depreciation and accretion .....	1,212,468	737,288	2,520,662	1,744,778
Stock based compensation .....	229,686	341,840	724,706	1,271,606
Impairment of unproved properties.....	580,754	-	2,753,030	-
(Gain) loss on sale of assets .....	14,178	-	9,742,665	(5,085,225)
Future income tax recovery.....	-	-	(2,600,000)	-
Changes in non-cash working capital (Note 10) .....	23,646	(4,593,559)	(3,631,810)	(9,914,022)
Net cash used in operating activities .....	<u>(750,914)</u>	<u>(3,662,160)</u>	<u>(4,982,587)</u>	<u>(8,256,016)</u>
<b>Cash flows from investing activities:</b>				
Oil and natural gas properties (Note 10) .....	(6,717,610)	(5,092,944)	(25,907,987)	(21,873,237)
Other property and equipment.....	(11,083)	(61,240)	(53,961)	(321,960)
Proceeds from assets sold (Note 3) .....	(14,178)	-	12,932,272	6,839,761
Changes in restricted cash (Note 4).....	(538,920)	-	31,558,538	(17,500,000)
Changes in notes receivable and other assets.....	379,992	120,966	358,733	218,141
Net cash provided by (used in) investing activities.....	<u>(6,901,799)</u>	<u>(5,033,218)</u>	<u>18,887,595</u>	<u>(32,637,295)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from the issuance of common shares and warrants .....	-	31,279,226	(280)	31,321,725
Change in line of credit (Note 4).....	(1,134,500)	-	(11,684,134)	-
Change in long-term debt.....	(5,908)	(6,226)	(1,743)	23,851
Net cash flows provided by (used in) financing activities .....	<u>(1,140,408)</u>	<u>31,273,000</u>	<u>(11,686,158)</u>	<u>31,345,576</u>
<b>Effect of currency rates on cash and cash equivalents .....</b>	<u>977,357</u>	<u>(828,221)</u>	<u>2,202,898</u>	<u>(1,839,270)</u>
Increase (Decrease) in cash .....	(7,815,764)	21,749,401	4,421,749	(11,387,005)
Cash and cash equivalents at beginning of period.....	20,470,955	13,939,194	8,233,442	47,075,600
<b>Cash and cash equivalents at end of period .....</b>	<u>\$ 12,655,191</u>	<u>\$ 35,688,595</u>	<u>\$ 12,655,191</u>	<u>\$ 35,688,595</u>
<b>Cash and cash equivalents consist of:</b>				
Cash.....	12,655,191	\$ 9,274,708	12,655,191	\$ 9,274,708
Interest bearing short-term deposits .....	-	26,413,887	-	26,413,887
Total cash and cash equivalents .....	<u>\$ 12,655,191</u>	<u>\$ 35,688,595</u>	<u>\$ 12,655,191</u>	<u>\$ 35,688,595</u>
<b>Supplementary cash flow information:</b>				
Interest received .....	<u>\$ 21,764</u>	<u>\$ 211,402</u>	<u>\$ 244,552</u>	<u>\$ 1,132,239</u>
Interest paid.....	<u>\$ 76,289</u>	<u>\$ 445</u>	<u>\$ 442,886</u>	<u>\$ 784</u>
Income taxes paid.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Comprehensive income (loss):</b>				
Net income (loss) .....	\$ (2,811,646)	\$ (147,729)	\$ (14,491,840)	\$ 3,726,847
Other comprehensive income (loss):				
Currency translation adjustments .....	977,357	(828,222)	2,202,898	(1,880,573)
Balance, end of period.....	<u>\$ (1,834,289)</u>	<u>\$ (975,951)</u>	<u>\$ (12,288,942)</u>	<u>\$ 1,846,274</u>
<b>Accumulated Other Comprehensive</b>				
<b>Loss:</b>				
Balance, beginning of period.....	\$ (8,581,495)	\$ (1,790,776)	\$ (9,807,036)	\$ (738,425)
Currency translation adjustments .....	977,357	(828,222)	2,202,898	(1,880,573)
Balance, end of period.....	<u>\$ (7,604,138)</u>	<u>\$ (2,618,998)</u>	<u>\$ (7,604,138)</u>	<u>\$ (2,618,998)</u>

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

# **Epsilon Energy Ltd.**

## **Notes to the Unaudited Interim Consolidated Financial Statements**

*(Unaudited; All amounts stated in US\$)*

### **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 natural gas and oil 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 unaudited 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 natural gas and oil 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 September 30, 2009 the Corporation had a working capital deficit of \$2,492,024, and, for the first nine months of 2009, incurred a net loss of \$14,491,840, and had negative cash flow from operations of \$533,904. During the first nine months of 2009, the Corporation sold its West Virginia properties for a net amount of \$12,932,272 and incurred a net loss of \$9,742,665 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; 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 unaudited interim 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.

### *Financial Instruments – Disclosures*

In May 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Corporation on December 31, 2009.

## 3. Property and Equipment

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

	<u>Gross Cost</u>	<u>Accumulated Depletion, Depreciation &amp; Accretion</u>	<u>Net Book Value</u>
<b>As at September 30, 2009:</b>			
Oil and natural gas properties			
United States <sup>(1)</sup> .....	\$ 65,763,179	\$ 5,843,649	\$ 59,919,530
Canada .....	2,907,598	-	2,907,598
Yemen.....	50,069,359	36,824,359	13,245,000
Ethiopia.....	2,093,823	-	2,093,823
Oman.....	3,137,560	6,528	3,131,032
Other .....	255,482	21,276	234,206
Total oil and natural gas properties .....	<u>\$ 124,227,002</u>	<u>\$ 42,695,812</u>	<u>\$ 81,531,189</u>
Office equipment:			
Software .....	114,854	66,379	48,475
Hardware.....	133,670	54,620	79,050
Furniture & fixtures, vehicles and other .....	301,183	102,938	198,245
Total office equipment .....	<u>549,707</u>	<u>223,937</u>	<u>325,770</u>
Grand total .....	<u><u>\$ 124,776,709</u></u>	<u><u>\$ 42,919,749</u></u>	<u><u>\$ 81,856,959</u></u>

	<u>Gross Cost</u>	<u>Accumulated Depletion, Depreciation &amp; Accretion</u>	<u>Net Book Value</u>
<b>As at December 31, 2008:</b>			
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>

Notes:

- (1) During the third quarter of 2009 the corporation reclassified \$1,138,042 of US property as Assets Held for Sale. See Note 12, Subsequent Events

### ***Cost Center Categorization***

To date, the Corporation's natural gas and oil production has pertained solely to its properties in the United States. As at September 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 \$16,730,991 and \$45,055,464, respectively. As at September 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 September 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 nine months ended September 30, 2009 and 2008, respectively, were as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Capitalized G&amp;A Costs:</b>				
United States.....	\$ 203,626	\$ 109,042	\$ 494,527	\$ 314,964
Canada.....	8,038	19,308	10,411	19,308
Yemen .....	10,500	143,852	63,819	522,752
Oman .....	118,220	20,613	361,135	22,685
Ethiopia .....	12,148	14,270	86,943	26,095
Other.....	21,022	70,841	49,224	70,841
Total.....	<u>\$ 373,554</u>	<u>\$ 377,926</u>	<u>\$ 1,066,059</u>	<u>\$ 976,645</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 \$12,932,272 and recognized a net loss of \$9,742,665. Of this amount \$9,728,486 was recognized during the second quarter of 2009 while an adjustment of \$14,178 was booked during the third quarter of 2009. During the first nine 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 5,085,225.

On September 18, 2009, the Corporation announced the sale of its non-core acreage located within Pennsylvania to an unrelated third party purchaser. The \$1,138,042 net book value of this acreage was consequently re-classified as a current asset under Assets Held for Sale. See Note 12, Subsequent Events "*Sale of Natural Gas Property Interests*".

### ***Unproved Property Impairment***

During the first nine months of 2009, the Corporation recorded an unproved property impairment of \$2,753,030 pertaining to Block 41 in Yemen, where it drilled an exploratory dry hole. The corporation also reclassified \$4,448,683 due from Oil and Gas Mine Company ("OGMC"), a non-operated joint interest owner in Block 41 in Yemen, as long-term receivable (See Note 7, Commitments and Contingencies). 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 September 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.

## **4. Line of Credit and Letter of Credit**

### ***Lines of Credit***

#### ***Northwestern Bank, Traverse City, Michigan***

At September 30, 2009, the Corporation's line of credit at Northwestern Bank was USD\$7,500,000, secured by a lien on the Corporation's New York assets in the amount of \$7,500,000 and a \$1,500,000 minimum deposit at Northwestern Bank. Terms of the credit line include an interest rate of prime less 1/4 percent, with a minimum rate of 4%. There are no other debt covenants covering this loan facility. The line of credit was extended effective September 1, 2009 and expires on December 31, 2009. At September 30, 2009, the Corporation had drawn the entire credit available under this loan facility and had a balance due of \$7,500,000. See Note 12, Subsequent Events "*Northwestern Bank Line of Credit*".

#### ***TD Bank, Toronto, Canada***

During the first nine months of 2009, the Corporation paid its line of credit at TD Bank in full.

### ***Letters 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 September 30, 2009, the balance of that letter of credit had been reduced to \$312,000, which was secured by restricted cash of \$332,375.

### *Ethiopia*

As of September 30, 2009, under terms of the Ethiopia PSA, the Corporation posted a letter of credit in favor of Ministry of Mines and Energy for \$150,000 secured by restricted cash of \$159,795. As of December 31, 2008 there was no letter of credit outstanding in relation to Ethiopia PSA.

### *Restricted Cash*

At September 30, 2009 and December 31, 2008, the Corporation's restricted cash balances consisted of the following (See Note, 13, Subsequent Events "Northwestern Bank Line of Credit"):

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>Restricted Cash:</b>		
Northwestern Bank – loan facility .....	\$ 1,500,000	\$ 1,000,000
TD Bank – loan facility.....	-	21,328,244
TD Bank – Yemen letter of credit.....	332,375	11,375,064
TD Bank – Ethiopia letter of credit.....	159,795	-
TD Bank – cross-currency security surplus <sup>(1)</sup> ...	152,600	-
Total .....	<u>\$ 2,144,770</u>	<u>\$ 33,703,308</u>

Notes:

(1) TD Bank restricted cash for Yemen and Ethiopia letters of credit is held in a Canadian dollar account at CDN\$700,000. The cross-currency security surplus is kept to mitigate U.S. dollar vs. Canadian dollar exchange rate fluctuations.

## **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 nine months ended September 30, 2009 and the year ended December 31, 2008:

	<b>Number of Shares Issued</b>	<b>Amount</b>
<b>Balance at December 31, 2007</b> .....	<u>45,698,323</u>	<u>\$ 109,725,936</u>
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 .....	<u>(1,000,000)</u>	<u>(2,734,114)</u>
<b>Balance at December 31, 2008</b> .....	<u>50,315,323</u>	<u>138,259,259</u>
Issuance costs for Bought Deal .....	-	(280)
<b>Balance at September 30, 2009</b> .....	<u>50,315,323</u>	<u>\$ 138,258,979</u>

### *(c) Stock Options*

The following table summarizes stock option activity for the nine months ended September 30, 2009 and the year ended December 31, 2008 (exercise price in Canadian dollars):

	As at September 30, 2009		As at December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
<b>Stock Options</b>				
<b>Outstanding:</b>				
Beginning of period...	3,317,449	\$ 2.60	2,565,632	\$ 2.31
Granted .....	310,000	\$ 2.48	977,817	\$ 3.78
Exercised .....	-	\$ -	-	-
Forfeited .....	(399,047)	\$ 3.39	(226,000)	\$ 4.33
End of period .....	3,228,402	\$ 2.50	3,317,449	\$ 2.60
Exercisable at period-end.....	2,129,802	\$ 1.78	1,836,166	\$ 1.81

The following table summarizes information about stock options outstanding at September 30, 2009 and December 31, 2008 (exercise price in Canadian dollars):

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Black-Scholes Option Pricing Model Valuation	Weighted Average Remaining Contractual Life (in years)
<b>As at September 30, 2009:</b>				
\$ 0.85	251,270	251,270	\$ 112,146	4.20
\$ 1.00	856,000	856,000	557,768	6.13
\$ 1.34	100,000	-	2,169	2.92
\$ 1.45	80,000	-	11,459	9.87
\$ 2.00	340,000	340,000	333,112	2.09
\$ 2.50 <sup>(1)</sup>	513,632	510,032	790,085	6.74
\$ 4.00 <sup>(2)</sup>	875,000	130,000	1,305,606	8.57
\$ 5.60 <sup>(3)</sup>	50,000	10,000	112,474	8.88
\$ 6.10 <sup>(4)</sup>	162,500	32,500	464,428	8.70
Total	3,228,402	2,129,802	\$ 3,689,247	6.48

Notes:

- (1) Unvested options comprise 3,600 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) Unvested options comprise 745,000 options granted at various dates ranging from November 27, 2007 to July 1, 2009, 665,000 of which contain vesting provisions of 20% per year commencing one year from the date of grant, and the remaining 80,000 that vest 33% 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.

**(d) Warrants**

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

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

**(e) Contributed Surplus**

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

	<b>Nine Months Ended September 30, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>Contributed surplus:</b>		
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 .....	724,706	1,846,518
Balance, end of period .....	<u>\$ 6,126,067</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.

The Corporation has deductible temporary differences that have been recognized to the extent to offset the taxable temporary differences and a valuation allowance has been recorded for any remaining deductible temporary differences, resulting in a recovery of \$2,600,000 of future income taxes at September 30, 2009.

## **7. Commitments and Contingencies**

### ***Yemen***

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. 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 September 30, 2009 and December 31, 2008.

As at September 30, 2009, OGMC owed the Corporation \$4,448,683, for their pro-rata share of costs pertaining to Block 41 in Yemen, all of which has been deemed to be in default. The Corporation has commenced legal action to pursue acquisition of OGMC's interest in Block 41 in full satisfaction of the amount due.

### ***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 over a 20 year contractual term.

In an effort to conserve its capital, as of September 30, 2009, the Corporation had not yet paid any up-front costs for Block 55 to the government of Oman. As at September 30, 2009, a total of \$2,250,000 of such up-front costs had been capitalized, but not paid. 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 September 30, 2009, the Corporation has expensed an overall late penalty of \$66,029 pertaining to such unpaid amounts.

### ***Saskatchewan - Bakken Shale Drilling Commitment***

The Corporation entered into an agreement with an unrelated privately held Canadian company on August 28, 2008, whereby the Corporation agreed to pay 100% of the costs to drill a minimum of two horizontal wells in the Bakken shale in order to earn a 50% working interest in acreage controlled by the unrelated private company. During the third quarter of 2009, the Corporation paid \$2,213,680 (CDN\$2,403,300) for the cost to drill the first of the two aforementioned earning wells.

### ***New York – Trenton-Black River Well Units***

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

Due to this contingency, there were no amounts initially recorded on the 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. As at September 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 September 30, 2009, the outcome of the Corporation's appeal was not determinable.

### ***Forward Sale of Natural Gas***

As of September 30, 2009, the Corporation had entered into a forward sales contract for six months commencing on November 1, 2009 for natural gas sale of 3 MMcf per day at a fixed price of \$5.15 per Mcf amounting to a total commitment over six months of \$2,954,085.

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

	<b>Payments Due by Period</b>			
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>4 Years and After</b>
<b>Future Commitments:</b>				
Accounts payable and accrued liabilities	\$ 9,968,111	\$ 9,968,111	\$ -	\$ -
Line of credit.....	7,500,000	7,500,000	-	-
Long-term debt.....	40,462	23,206	17,256	-
Operating leases .....	1,542,212	604,778	824,229	113,206
Purchase obligations .....	3,452,750	3,452,750	-	-
Other long-term obligations <sup>(1)</sup> .....	29,318,690	-	29,318,690	-
Total .....	<u>\$ 51,822,225</u>	<u>\$21,548,845</u>	<u>\$ 30,160,175</u>	<u>\$ 113,206</u>

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. In the arbitration, Pinpoint sought recovery of \$2,895,136 plus interest in allegedly due and owing invoices. As of September 30, 2009 the Corporation had capitalized the entire disputed amount. On October 5, 2009, the Corporation agreed to settle its dispute with Pinpoint for a total amount of \$1,075,000. See Note 12, Subsequent Events "*Arbitration – Pinpoint Drilling and Directional Services LLC*".

## **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 September 30, 2009, the Corporation had working capital deficit of \$2,492,024. However, when taking into account restricted cash securing the Corporation's loan facilities and line of credit, working capital deficit would have been \$347,254. See Note 4, Loan Facilities and Letter of Credit, and Note 12, Subsequent Events, "*Sale of Natural Gas Property Interests*" and "*Northwestern Bank Line of Credit*"

In addition, the Corporation has commitments under existing agreements as described in Note 7, 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 primarily at market rates and occasionally via forward fixed price sale contracts. Fluctuations in oil and natural gas prices can materially impact the current and future profitability of the Corporation.

As of September 30, 2009, the Corporation had entered into a forward sales contract for six months commencing on November 1, 2009 for natural gas sale of 3 MMcf per day at a fixed price of \$5.15 per Mcf. As the contract is a physical delivery contract and Epsilon has enough production to fulfill its commitment, the contract is not treated as a financial derivative. In the event when the Company does not have sufficient production to meet its commitment under the contract, gain or loss from mark-to-market valuation will be recognized in the income statement.

#### ***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, at September 30, 2009, the Corporation had \$7,500,000 of variable interest rate debt and a 1% plus or minus change in the average annual interest rate would have resulted in a change of \$75,000 in annual interest costs.

#### ***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 retains cash balances in both US and Canadian dollars. Additionally the Corporation has loan facilities in US Dollars totaling \$26,000,000 in place. At September 30, 2009, the outstanding balance of such loan facilities was \$7,500,000. During June 2009, the Corporation received a net amount of \$12,932,272 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 and Note 12, Subsequent Events, "*Northwestern Bank 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 conversion rate (1.0856) of Canadian to US dollars against the Corporation's Canadian denominated cash, cash equivalents and restricted cash balances at September 30, 2009 would have affected the value

of such balances by approximately \$660,000. 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 September 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.

***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:

	<b>Nine Months Ended September 30, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>706147 Ontario, Inc.:</b>		
Administrative services.....	\$ 37,956	\$ 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 net amount of \$12,932,272 (\$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:

	<b>Nine Months Ended September 30, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>Gastem Inc.:</b>		
Accounts receivable .....	\$ -	\$ 21
Joint venture costs .....	\$ 32,197	\$ 76,876
Joint venture revenues .....	\$ 111,502	\$ 309,917
Accounts payable .....	\$ -	\$ 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:

	<b>Nine Months Ended September 30, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>Austin Exploration LLC:</b>		
Accounts receivable .....	\$ 4,473	\$ 109,652
Joint venture costs .....	\$ 287,948	\$ 2,654,594
Joint venture revenues .....	\$ 465,800	\$ 902,291
Accounts payable .....	\$ -	\$ 75,115
<b>Western Land Services:</b>		
Lease brokerage services .....	\$ 337,215	\$ 1,667,898
Accounts payable .....	\$ 27,642	\$ 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 nine months ended September 30, 2009 and 2008, respectively, were comprised of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Changes in Non-Cash Balances:</b>				
Accounts receivable.....	\$ 3,799,052	\$ (724,944)	\$ 6,032,223	\$ (3,166,147)
Long-term receivable.....	(4,448,683)	-	(4,448,683)	-
Other current assets .....	166,158	(80,370)	163,803	106,107
Accounts payable, accrued and other liabilities .....	507,119	(3,788,245)	(5,379,153)	(6,853,982)
Total changes to non-cash balances related to operations .....	<u>\$ 23,646</u>	<u>\$ (4,593,559)</u>	<u>\$ (3,631,810)</u>	<u>\$ (9,914,022)</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 nine months ended September 30, 2009 and 2008, respectively, were comprised of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Additions to Oil and Natural Gas Properties:</b>				
Net change in gross property for the period.....	\$ 5,911,983	\$ 8,243,936	\$ 2,712,428	\$ 29,148,095
Non cash changes:				
Assets held for sale re-classification .....	1,138,042	-	1,138,042	-
Asset retirement obligations .....	-	(26,048)	134,370	(107,817)
Cost of assets sold .....	-	-	22,674,937	1,754,543
Accrued liabilities .....	(332,415)	(3,124,944)	(751,790)	(8,921,584)
Total cash additions to oil and natural gas properties.....	<u>\$ 6,717,610</u>	<u>\$ 5,092,944</u>	<u>\$ 25,907,987</u>	<u>\$ 21,873,237</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 September 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:

Reportable Segments:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
United States:				
Revenues .....	\$ 606,563	\$ 2,475,823	\$ 3,046,360	\$ 6,386,741
Operating costs.....	187,787	671,095	1,040,180	1,339,454
Capital expenditures.....	2,919,646	4,620,485	17,142,155	20,291,842
Canada:				
Revenues .....	-	-	-	-
Operating costs.....	-	-	-	-
Capital expenditures.....	2,257,176	18,321	2,307,147	18,504
Yemen:				
Revenues .....	-	-	-	-
Operating costs.....	-	-	-	-
Capital expenditures.....	580,754	3,308,396	2,753,030	8,454,162
Ethiopia:				
Revenues .....	-	-	-	-
Operating costs.....	-	-	-	-
Capital expenditures.....	13,148	104,279	242,709	116,124
Oman:				
Revenues .....	-	-	-	-
Operating costs.....	-	-	-	-
Capital expenditures.....	119,866	110,361	2,878,258	185,360
Other International:				
Revenues .....	-	-	-	-
Operating costs.....	-	-	-	-
Capital expenditures.....	21,393	82,093	64,065	82,103
<b>Total Reportable Segments:</b>				
<b>Revenues .....</b>	<b>606,563</b>	<b>2,475,823</b>	<b>3,046,360</b>	<b>6,386,741</b>
<b>Operating costs.....</b>	<b>187,787</b>	<b>671,095</b>	<b>1,040,180</b>	<b>1,339,454</b>
<b>Capital expenditures .....</b>	<b>5,911,983</b>	<b>8,243,936</b>	<b>25,387,364</b>	<b>29,148,095</b>

## 12. Subsequent Events

### *Arbitration – Pinpoint Drilling and Directional Services LLC*

On October 5, 2009, the Corporation agreed to settle its dispute with Pinpoint covering drilling services on the Highway 706 project under a drilling contract dated May 16, 2008 between Pinpoint and the Corporation's contract operator for \$1,075,000. As of September 30, 2009 the Corporation had capitalized the entire disputed amount. The Corporation paid the agreed upon amount to Pinpoint on October 27, 2009.

### *Sale of Natural Gas Property Interests*

On September 18, the Corporation entered into an agreement for the sale of approximately 3,700 net leasehold non-core acres located in eastern Pennsylvania to an unrelated third party for \$3,400 per net leasehold acre. On October 16, 2009, the sale was executed and the Corporation received \$10,750,766. The balance of closing proceeds will be paid no later than 30 days from the date of transaction. See Note 3, Property and Equipment “*Sale of Oil and Natural Gas Property Interests*”.

### *Northwestern Bank Line of Credit*

On October 16, 2009, the Corporation paid the outstanding balance of \$7,500,000 with regards to its line of credit at Northwestern Bank in full.

### *Oman – Block 55 EPSA*

Epsilon announced on November 5 that it has sent a letter to the Ministry of Oil and Gas, Sultanate of Oman stating that Epsilon is withdrawing from the EPSA covering Block 55, where it is the official operator. See Note 7. Commitments and Contingencies, “*Oman - EPSA*”