

Consolidated Financial Statements

**Echo Energy Canada Inc.**

September 30, 2007

# Echo Energy Canada Inc.

## Notice to Reader

The management of Echo Energy Canada Inc. is responsible for the preparation of the accompanying interim financial statements. The interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

*(signed) "Gary Conn"*

Gary Conn, President and Chief Executive Officer

*(signed) "Robert Gilmore"*

Robert Gilmore, Chief Financial Officer

November 14, 2007

# Echo Energy Canada Inc.

Incorporated under the laws of Ontario

## CONSOLIDATED BALANCE SHEETS

As at	September 30, 2007 \$ [unaudited]	December 31, 2006 \$ [audited]
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	413,008	455,677
Term deposits	213,000	213,000
Accounts receivable	174,436	275,557
Inventory [note 3]	32,894	82,937
Prepays	26,432	14,126
	<b>859,770</b>	<b>1,041,297</b>
<b>Non-current assets</b>		
Property and equipment, net [note 4]	6,228,521	6,271,727
Oil and gas leases [note 5]	44,458,078	44,245,578
Investment in Ontex Resources Limited [note 6]	371,253	617,946
	<b>51,917,622</b>	<b>52,176,548</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	147,987	316,066
Accrued royalties	57,069	69,793
Current portion of long-term debt [note 8]	—	310,000
Advances from Ontex Resources Limited [note 6]	78,121	35,906
	<b>283,177</b>	<b>731,765</b>
Long-term debt [note 8]	6,200,000	5,890,000
Asset retirement obligation [note 9]	81,300	81,300
Future income taxes [note 10]	13,627,000	13,669,100
	<b>20,191,477</b>	<b>20,372,165</b>
Commitments [note 12]		
<b>Shareholders' equity</b>		
<b>Share capital [note 11]</b>		
<b>Authorized</b>		
Unlimited common shares		
<b>Issued</b>		
Common shares	35,426,830	35,417,100
Deficit	(3,700,685)	(3,612,717)
	<b>31,726,145</b>	<b>31,804,383</b>
	<b>51,917,622</b>	<b>52,176,548</b>

See accompanying notes to consolidated financial statements

On behalf of the Board

"David Johnstone"

Director

"Gary Conn"

Director

# Echo Energy Canada Inc.

Incorporated under the laws of Ontario

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND RETAINED EARNINGS (DEFICIT)

For the

	three month period ended		nine month period ended	
	September 30, 2007 \$	September 30, 2006 \$	September 30, 2007 \$	September 30, 2006 \$
	[unaudited]	[unaudited]	[unaudited]	[unaudited]
<b>REVENUE</b>				
Gross sales	528,088	745,028	1,850,426	1,990,432
Less: Royalties	33,193	53,509	116,043	116,441
Net sales	494,895	691,519	1,734,383	1,873,991
Interest	2,026	3,558	7,472	7,293
Total revenue	496,921	695,077	1,741,855	1,881,284
<b>EXPENSES</b>				
Transportation	52,478	55,665	156,738	172,721
Operations	89,817	48,705	300,663	303,012
Depreciation, depletion and amortization	145,044	68,553	430,882	180,524
Management and professional fees	124,988	211,633	459,752	540,361
General and administrative expenses	29,238	69,549	135,469	274,460
Interest on long-term debt	104,635	101,577	305,583	285,835
Interest and bank charges	2,571	2,439	6,847	4,244
	548,771	558,121	1,795,934	1,761,157
<b>Earnings (loss) before the undernoted</b>	(51,850)	136,956	(54,079)	120,127
Exchange loss on foreign currency	(44,143)	—	(105,966)	—
Gain on sale of shares of Ontex Resources Limited [note 6]	40,847	—	50,231	—
Equity income (loss) from Ontex Resources Limited [note 6]	(2,351)	(10,791)	(10,524)	(23,834)
Equity loss from Echo Power Generation Inc. [note 7]	—	(74,419)	—	(193,488)
Share compensation expense [note 11[c]]	(2,630)	—	(9,730)	—
<b>Net earnings (loss) before income taxes</b>	(60,127)	51,746	(130,068)	(97,195)
Future income tax recovery (expense) [note 10]	20,600	(36,200)	42,100	(62,500)
<b>Net earnings (loss)</b>	(39,527)	15,546	(87,968)	(159,695)
Deficit, beginning of period	(3,661,158)	(2,437,696)	(3,612,717)	(2,262,455)
<b>Deficit, end of period</b>	(3,700,685)	(2,422,150)	(3,700,685)	(2,422,150)
Basic and diluted income (loss) per share [note 11[a]]	\$ (0.001)	\$ 0.000	\$ (0.002)	\$ (0.003)

See accompanying notes to consolidated financial statements

# Echo Energy Canada Inc.

Incorporated under the laws of Ontario

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the

	three month period ended		nine month period ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
	[unaudited]	[unaudited]	[unaudited]	[unaudited]
<b>Cash provided by (used in)</b>				
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)	(39,527)	15,546	(87,968)	(159,695)
Items not affecting cash				
Future income tax expense	(20,600)	36,200	(42,100)	62,500
Depreciation, depletion and amortization	136,616	68,553	411,249	180,524
Gain on sale of shares	(40,847)	—	(50,231)	—
Share compensation expense	2,630	—	9,730	—
Equity loss from Ontex Resources Limited	2,351	10,791	10,524	23,834
Equity loss from Echo Power Generation Inc.	—	74,419	—	193,488
Change in non-cash operating working capital [note 14]	(25,980)	(132,768)	(41,945)	61,194
	<b>14,643</b>	<b>72,741</b>	<b>209,259</b>	<b>361,845</b>
<b>FINANCING ACTIVITIES</b>				
Repayments from (advances to) Echo Power Generation Inc	—	—	—	398,969
Repayments and advances from Ontex Resources Limitec	12,259	(25,371)	42,215	562,474
	<b>12,259</b>	<b>(25,371)</b>	<b>42,215</b>	<b>961,443</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(3,100)	(10,030)	(6,679)	(269,681)
Acquisition of oil and gas leases	(169,122)	(159,854)	(573,864)	(1,142,336)
Investment in Echo Power Generation Inc	—	—	—	(300,000)
Investment in Ontex Resources Limited	—	—	—	(811,770)
Proceeds on sale of investment in Ontex Resources Limitec	181,000	—	286,400	—
	<b>8,778</b>	<b>(169,884)</b>	<b>(294,143)</b>	<b>(2,523,787)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>35,680</b>	<b>(122,514)</b>	<b>(42,669)</b>	<b>(1,200,499)</b>
Cash and cash equivalents, beginning of period	377,328	477,890	455,677	1,555,875
<b>Cash and cash equivalents, end of period</b>	<b>413,008</b>	<b>355,376</b>	<b>413,008</b>	<b>355,376</b>

See accompanying notes to consolidated financial statements

## **Echo Energy Canada Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2007

## **1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Echo Energy Canada Inc. (the "Company") was amalgamated on April 1, 2006 under the Business Corporations Act (Ontario). The Company is a natural resource company focused on the development of natural resource projects. The Company currently operates in one geographic region, Canada, and in one industry segment, oil and gas.

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries, 1490564 Ontario Inc. and Pecho Pipelines Inc. The company and Echo Energy Inc. ("EEI") were amalgamated on April 1, 2006 and continue as Echo Energy Canada Inc.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The interim consolidated financial statements have been prepared by management using Canadian generally accepted accounting principles and follow the same accounting principles and methods of computation as the audited annual consolidated financial statements for the year ended December 31, 2006 unless otherwise disclosed. The interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the notes thereto.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Actual results will differ from those estimated.

In particular, the amounts recorded for depletion, depreciation and amortization of natural gas leases and for asset retirement obligations are based on estimates of reserves and future costs. By their nature, these estimates, and those related to future cash flows used to assess impairment, are subject to measurement uncertainty.

### **[a] Investments**

Investments in companies over which the Company has significant influence are accounted for on the equity basis.

### **[b] Oil and gas leases**

The Company follows the full cost method of accounting for natural gas leases, whereby all costs associated with the acquisition of, exploration for and development of gas reserves are capitalized. Costs capitalized include lease acquisition costs, geological and geophysical expenditures, drilling of productive and non-productive wells and related plan and production equipment costs. General and administrative expenses are not capitalized

## **Echo Energy Canada Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2007

other than to the extent of the Company's interest in Company operated capital expenditure programs to which operation's fees have been charged in accordance with standard industry operating agreements. While in the development stage, revenues derived from the sale of gas were presented as a reduction of capitalized cost. Proceeds from the sale of gas properties would reduce capitalized costs with recognition of a gain or loss if such a sale would significantly alter the rate of depletion and depreciation.

Capitalized costs plus estimated future development costs of proven reserves are depleted and depreciated using the unit-of-production method based upon estimated proven developed and undeveloped gas reserves before royalties as determined by independent consulting engineers.

In applying the full cost method, the Company performs an impairment test, which restricts the net capitalized costs from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves based on current prices and costs, after deducting estimated future general and administrative expenses, financing costs, income taxes and site restoration costs.

#### **[c] Asset Retirement Obligation**

The fair value of the estimated obligation associated with the retirement and reclamation of tangible long-lived assets is recorded when the related assets are put into use with a corresponding increase to the carrying amount of the related assets. This increase in capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion and amortization of the underlying assets. Subsequent changes in the estimated fair value of the asset retirement obligations are capitalized and amortized over the remaining useful life of the underlying asset.

The asset retirement obligation liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

#### **[d] Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term deposits with original maturities of less than three months at the date of purchase.

#### **[e] Inventory**

Inventory of gas held in a third party storage facility is valued at the lower of cost, determined under the full cost method, and market value.

## **Echo Energy Canada Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2007

#### **[f] Property and equipment**

The Company records property and equipment at cost, net of any grants or incentives received. Automobiles are depreciated on the declining balance method over their estimated useful lives at an annual rate of 20%. Costs of constructing the gas gathering pipeline and compressor system, plus estimated cost to complete, are depreciated based on the unit-of-production method.

An impairment loss is recognized when the carrying value of property and equipment will not be recovered through use.

#### **[g] Income taxes**

The Company accounts for income taxes under the liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

#### **[h] Financial instruments**

Effective January 1, 2007, the Company adopted the CICA Handbook Section 3861, "Financial Instruments". The new recommendations enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows and require the use of fair value in recognizing and measuring certain financial assets and liabilities. The adoption of the new recommendations did not impact the consolidated financial statements.

##### *Credit Risk*

The Company's accounts receivable are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by ensuring strict compliance with agreed credit terms and routine assessment of the financial strength of its customers, all of which are publicly reporting entities. At September 30, 2007, the Company's largest credit exposure to a single party was approximately \$174,436.

## Echo Energy Canada Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

### *Fair Value*

The carrying values of cash and cash equivalents, term deposits, accounts receivable, accounts payable and accrued liabilities, long-term debt and advances to related parties reflected in the consolidated balance sheets approximate their respective fair values.

### *Currency Risk*

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, accounts receivable and accounts payable held in U. S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

### *Interest Rate Risk*

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its long-term debt.

## **[i] Flow-through shares**

Share capital includes flow-through shares issued pursuant to certain provision of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company.

## **[j] Earnings (loss) per common share**

Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding in each respective period. Diluted earnings (loss) per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive, and calculated using the treasury stock method.

## **[k] Stock-based compensation**

The Company recognizes stock based compensation expense when stock options are vested using the fair value method. The recognized stock based compensation is credited to capital stock. Any consideration paid upon the exercise of stock options or purchase of shares is credited to share capital.

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

#### [1] Revenue

Revenue from the sale of gas and associated hydrocarbons is recognized when the product is delivered.

#### 3. INVENTORY

	September 30, 2007	December 31, 2006
	\$	\$
Natural gas in storage:		
22,034 mcf	—	82,937
8,269 mcf	32,894	—
	32,894	82,937

#### 4. PROPERTY AND EQUIPMENT

	<u>September 30, 2007</u>		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobile	76,669	31,230	45,439
Gas gathering pipeline and compressor system	6,327,177	144,095	6,183,082
	6,403,846	175,325	6,228,521

  

	<u>December 31, 2006</u>		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobile	72,385	23,512	48,873
Gas gathering pipeline and compressor system	6,326,077	103,223	6,222,854
	6,398,462	126,735	6,271,727

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

#### 5. OIL AND GAS LEASES

	Acquisition \$	Exploration \$	Total \$
<b>Balance, December 31, 2005</b>	<b>35,082,391</b>	<b>7,935,766</b>	<b>43,018,157</b>
Deferred exploration costs	—	1,750,469	1,750,469
Revision to asset retirement obligation	—	58,300	58,300
Depreciation, depletion and amortization	—	(581,348)	(581,348)
<b>Balance, December 31, 2006</b>	<b>35,082,391</b>	<b>9,163,187</b>	<b>44,245,578</b>
Deferred exploration costs	—	573,864	573,864
Depreciation, depletion and amortization	—	(361,364)	(361,364)
<b>Balance, September 30, 2007</b>	<b>35,082,391</b>	<b>9,375,687</b>	<b>44,458,078</b>

- [a] Pursuant to an agreement (the “Agreement”) dated August 23, 2000 and amended October 20, 2000 among the Company, Ontex Resources Limited (“Ontex”), Southern Ontario National Gas Limited (“SONG”) and EEI, all of which were related parties at the date of the transaction [note 12], EEI acquired a 100% interest in certain oil and gas leases owned by SONG and covering 2,000 acres in Bayham Township, Ontario. The consideration given in respect of the acquisition was \$100,000 in cash and 100,000 common shares of the Company.

The Agreement reserved a gross overriding royalty to SONG of 5% to be subsequently increased to 10%. On January 17, 2002, this royalty was bought by Ontex from SONG for consideration of 200,000 issued and outstanding common shares of the Company. The lessors have reserved a royalty of 5% of the net revenue from all gas and associated hydrocarbons produced from each well drilled on the lands under lease and a royalty of 12.5% of the net revenue from all oil and minerals recovered from the lands under lease.

- [b] On July 11, 2001, the Company entered into an agreement with SONG, to acquire five leases (“Houghton leases”) in the Municipality of Houghton, County of Norfolk, Ontario. The consideration given in respect of the acquisition was \$50,000 in cash and 50,000 common shares of the Company.

SONG retained a 5% gross royalty until July 11, 2006 and a 10% gross royalty thereafter. The royalty applies to the properties in Concessions West, East and Concession I in Houghton Township affected by the five Houghton leases.

## **Echo Energy Canada Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2007

The Company has also entered into additional leases with private land owners whereby:

- [c] The Company has acquired an exclusive right to carry on geological research and to drill for, produce, remove all oil, gas and associated hydrocarbons and minerals within the leased lands together with the right to use water resources and the right to locate and install gas metering facilities and the right to locate and construct and perpetually operate and maintain pipelines for transporting said products for a primary term of 5 years and for so long thereafter as any of the said products can be recovered or transported in useful or profitable quantities.

In consideration for the exclusive rights, the Company has agreed to the following:

- i. Commence a well on the said leased lands within 12 months of the date of the lease or pay an annual rental of \$5.00 per acre until a well is drilled or until the primary term of the lease is expired;
- ii. Pay \$200 in advance for access to any wellsite on the leased lands to compensate for property damage and growing crops;
- iii. Pay a royalty ranging from 5% to 6.5% on the net revenue from all gas and associated hydrocarbons produced from each well drilled on the said leased lands once annually; or, pay a minimum of \$600 for each well for each year that yields a minimum of 300,000 cubic feet per day and a shut-in pressure of 300 pounds in 30 days; and
- iv. Pay a 12.5% royalty on net revenue from all oil and minerals recovered from the said leased lands.

#### **6. INVESTMENT IN ONTEX RESOURCES LIMITED**

On March 16, 2006, the Company acquired 4,509,833 common shares of Ontex Resources Limited (“Ontex”) at a price of \$0.18 per share pursuant to a debt to shares conversion agreement under which Ontex settled a \$811,770 debt owed to the Company. The debt comprised a number of cash advances made by the Company to Ontex. In October 2006, the Company participated in a rights offering to acquire a further 1,127,458 shares at a price of \$0.10 per share for \$112,746 to maintain its proportionate interest. In December 2006, the Company sold 1,647,058 shares at a price of \$0.17 per share for \$280,000 to an arms length purchaser resulting in a gain of \$9,882. In January 2007, the Company sold an additional 620,000 shares at a price of \$0.17 per share for \$105,400 resulting in a gain of \$9,384. In August 2007, the Company sold 905,000 shares at a price of \$0.20 per share for \$181,000 resulting in a gain of \$40,847.

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

As a result, the Company holds 2,465,233 shares representing a 3.62% interest in Ontex as follows:

	Nine months ended September 30, 2007 \$	Year ended December 31, 2006 \$
Opening balance	617,946	—
Acquisition of common shares	—	924,516
Sale of common shares	(236,169)	(270,118)
Share of equity loss	(10,524)	(36,452)
	371,253	617,946

Ontex has two common directors with the Company, and owns 13.3% of the Company's outstanding shares at September 30, 2007 [2006 – 13.3%]. Advances payable in the amount of \$78,121 (2006 –\$35,906) are non-interest bearing and payable on demand.

#### 7. INVESTMENT IN ECHO POWER GENERATION INC.

As at December 31, 2005, the company held 10,000,000 common shares of EPG. In April 2006, the Company participated in a rights offering by EPG, acquiring rights to an additional 3,000,000 shares for \$300,000. On May 1, 2006, EPG notified the Company that the offering was fully subscribed and that 34,409,295 common shares were issued and outstanding. EPG continued to record losses and requires additional funding to support future operations.

The Company reflected a write-down of its 37.78% interest in EPG on December 31, 2006 to record the investment at \$nil as follows:

	Nine months ended September 30, 2007 \$	Year ended December 31, 2006 \$
Opening balance	—	1,192,975
Acquisition of common shares	—	300,000
Share of equity loss	—	(530,982)
Write-down of investment	—	(961,993)
	—	—

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

#### 8. LONG-TERM DEBT

In October 2005, the Company's revolving credit facility was increased to \$6,500,000 and in October 2007 the revolving period was extended from July 31, 2007 to July 30, 2008 at which time the facility will be extended for a further 364 day period or converted to a one year term with quarterly principal payments of one twentieth of the advanced amount, if necessary, commencing October 30, 2008.

Interest is charged at a rate of prime plus 0.5% and paid monthly during the revolving period. The facility is secured by an \$8,000,000 debenture representing a first floating charge on all assets and undertakings of the Company and a fixed charge on gas properties.

#### 9. ASSET RETIREMENT OBLIGATION

During the year ended December 31, 2006, the Company adjusted its estimated total undiscounted asset retirement obligation based on a gross liability of \$370,000 discounted at the Company's then current cost of financing to a present value of \$81,300 over a 25 year life in accordance with estimates prepared by an independent consulting engineer. There has been no material change in the estimate for the period ended September 30, 2007.

Estimated future retirement costs such as dismantlement, site restoration and abandonment costs are subject to uncertainty associated with the method, timing and extent of future dismantlement, site restoration and abandonment. For example, changes in legislation or technology may result in actual future costs that differ materially from those estimated. The Company provided letters of credit in 2004 in the amount of \$140,000 as security for its asset retirement obligation.

#### 10. FUTURE INCOME TAXES

Income taxes vary from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 38% to earnings (loss) before income taxes as follows:

	<b>September 30, 2007</b>	September 30,
	\$	2006
		\$
Expected income tax recovery (expense) using statutory income tax rates	<b>48,600</b>	39,000
Resource allowance	—	20,100
Loss not subject to income taxes	<b>(2,100)</b>	(55,100)
Reduction of substantively enacted rates	<b>2,400</b>	9,100
Non-deductible expenses	<b>(6,800)</b>	(75,600)
<b>Future income tax recovery (expense)</b>	<b>42,100</b>	(62,500)

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

The tax effects of temporary differences that give rise to significant portions of the future tax liabilities are as follows:

	September 30, 2007	December 31, 2006
	\$	\$
Property and equipment	(184,600)	(144,800)
Non-capital losses	482,100	489,600
Deferred exploration expenditures	(2,222,800)	(2,169,800)
Investment in EPG and Ontex	159,500	17,100
Tax effect pursuant to the business combination	(11,861,200)	(11,861,200)
	<b>(13,627,000)</b>	<b>(13,669,100)</b>

The Company has approximately \$1,176,000 of operating losses that expire between 2007 and 2013.

#### 11. SHARE CAPITAL

The Company has issued common shares as follows:

	Number of shares #	Share capital \$
<b>Balance, December 31, 2005</b>	<b>52,779,515</b>	<b>35,417,100</b>
Changes during the period	—	—
<b>Balance, December 31, 2006</b>	<b>52,779,515</b>	<b>35,417,100</b>
Options vested during the period	—	9,730
<b>Balance, September 30, 2007</b>	<b>52,779,515</b>	<b>35,426,830</b>

#### [a] Earnings per share

	September 30, 2007	September 30, 2006
	\$	\$
<b>Basic and diluted earnings (loss) per share computation</b>		
Numerator:		
Net earnings (loss)	(87,968)	(159,695)
Denominator:		
Weighted average common shares outstanding	52,779,515	52,779,515
<b>Basic and diluted earnings (loss) per share</b>	<b>(0.002)</b>	<b>(0.003)</b>

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

#### [b] Stock options

Under the stock option plan, eligible directors, officers and employees may be granted options to acquire common shares at a price which is not less than the closing price of the Company's common shares on the TSX Venture Exchange on the trading day immediately preceding the date of grant less any discounts permitted by the rules of the Exchange. The options are not transferable, shall vest immediately and may be subject to any vesting the Board of Directors determines not to exceed a term of 10 years.

4,700,000 options granted on October 28, 2004 were exercisable in whole or in part at any time prior to October 28, 2007 at the exercise price of \$2.00 per common share. None of the options were exercised and have now expired.

On December 1, 2006, 265,000 options, exercisable at any time from November 30, 2007 to the expiry date of November 30, 2008 at a price of \$0.50, were granted to the Company's investor relations firm under an investor relations agreement with vesting of one-quarter of the options on each of February 28, 2007, May 31, 2007, August 31, 2007 and November 30, 2007. The fair values of the option compensation vested on February 28, 2007, May 31, 2007 and August 31, 2007 were estimated at \$3,610, \$3,490 and \$2,630, respectively, as discussed below and the fair value of the remaining options will be recognized on the vesting dates. A total of 7,785,000 shares remain available for issuance under the stock option plan.

#### [c] Share compensation expense

The fair value of \$9,730 for the options granted and vested in 2007 were estimated at the date of vesting using the Black-Scholes option pricing model with no expected dividend yield and the following weighted average assumptions and fair values:

Number of Options	Risk free rate	Expected Volatility	Option Life	Fair value per option	Total Fair value
<i>February 28, 2007</i>					
<b>66,250</b>	<b>6.5%</b>	<b>5.4%</b>	<b>21 months</b>	<b>\$0.05</b>	<b>\$3,610</b>
<i>May 31, 2007</i>					
<b>66,250</b>	<b>6.5%</b>	<b>9.5%</b>	<b>18 months</b>	<b>\$0.05</b>	<b>\$3,490</b>
<i>August 31, 2007</i>					
<b>66,250</b>	<b>6.5%</b>	<b>9.5%</b>	<b>15 months</b>	<b>\$0.04</b>	<b>\$2,630</b>

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, were developed to estimate fair value of freely tradeable, fully transferable options without vesting restrictions. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

## **Echo Energy Canada Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended September 30, 2007

#### **12. COMMITMENTS**

The Company has contractual obligations under management consulting agreements, expiring between September 15, 2011 and September 15, 2013, to compensate certain of its executive officers for management services provided by them in the aggregate amount of \$608,533 for 2007, escalating at the rate of ten percent per annum.

In September 2001, the Company's subsidiary, 1490564 Ontario Inc., entered into an agreement for the purchase of certain oil and gas leases for \$90,000 subject to regulatory approval. At September 30, 2007, no payments in respect of this agreement have been made.

The Company has also entered into a number of exclusive lease rights with land owners. These leases contemplate a minimum or maximum amount payable in the form of rent per acre of land under lease and royalties on revenues generated on gas, oil and minerals extracted from the land. While the leases grant rights to the Company over a specified term, the Company may at any time release all or part of its interest and thereby terminate its obligations. Payments totaling \$224,891 are expected to be paid under existing leases during 2007.

#### **13. RELATED PARTY TRANSACTIONS**

All related party transactions have been recorded at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

During the period ended September 30, 2007, the Company paid certain of its directors and executive officers \$492,111 [2006 - \$546,701] in consulting fees. The Company also paid \$nil [2006 - \$41,827] in respect of rent and office services to a company influenced by the Chairman.

On March 16, 2006, the Company acquired 4,509,833 common shares of Ontex Resources Limited ("Ontex") at a price of \$0.18 per share pursuant to a debt to shares conversion agreement under which Ontex settled a \$811,770 debt owed to the Company as discussed in Note 6. In October 2006, the Company acquired a further 1,127,458 shares at a price of \$0.10 per share and, in December 2006, sold 1,647,058 shares at a price of \$0.17 per share to an arms length purchaser. In January 2007, the Company sold an additional 620,000 shares at a price of \$0.17 and, in August 2007, sold 905,000 shares at a price of \$0.20. Ontex has two common directors with the Company and, as a result of the above transactions, owns 3.62% of the Company's outstanding shares at September 30, 2007.

## Echo Energy Canada Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2007

#### 14. STATEMENT OF CASH FLOWS

[a] Changes in non-cash working capital consist of the following:

	<b>September 30, 2007</b>	September 30,
	\$	2006
		\$
Accounts receivable	<b>101,121</b>	314,214
Inventory	<b>50,043</b>	(22,574)
Prepaid expenses	<b>(12,306)</b>	(43,973)
Accounts payable and accrued liabilities	<b>(168,079)</b>	(133,649)
Accrued royalties	<b>(12,724)</b>	(52,824)
	<b>(41,945)</b>	61,194

[b] Supplemental cash flow information

	<b>September 30, 2007</b>	September 30,
	\$	2006
		\$
Interest received	<b>7,472</b>	7,293
Interest paid	<b>305,583</b>	285,835

#### 15. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to reflect the presentation adopted in the current period.