Consolidated Financial Statements

Echo Energy Canada Inc.

March 31, 2006

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.

Gary Conn, Executive Vice President

Robert Gilmore, Chief Financial Officer

May 29, 2006

Echo Energy Canada Inc.

Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

As at,

	March 31, 2006	December 31, 2005
	$	$
	[unaudited]	[audited]
ASSETS		
Current assets		
Cash and cash equivalents	**831,765**	1,555,875
Term deposits	**213,000**	213,000
Accounts receivable	**246,568**	529,304
Inventory *[note 3]*	**64,882**	34,911
Advances to Ontex Resources Ltd. *[note 6]*	**22,122**	711,770
Advances to Echo Power Generation Inc. *[note 7]*	**553,969**	398,969
Prepaids	**507**	1,735
	1,932,813	3,445,564
Non-current assets		
Property and equipment, net *[note 4]*	**6,307,599**	6,094,002
Oil and gas leases *[note 5]*	**43,368,001**	43,018,157
Investment in Ontex Resources Limited *[note 6]*	**801,358**	—
Investment in Echo Power Generation Inc. *[note 7]*	**1,109,516**	1,192,975
	53,519,287	53,750,698
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**258,192**	401,680
Accrued royalties	**129,578**	125,073
Current portion of long-term debt *[note 8]*	**620,000**	310,000
	1,007,770	836,753
Long-term debt *[note 8]*	**5,580,000**	5,890,000
Asset retirement obligation *[note 9]*	**23,000**	23,000
Future income taxes *[note 10]*	**13,827,300**	13,846,300
	20,438,070	20,596,053
Commitments *[note 12]*		
Shareholders' equity		
Share capital *[note 11]*		
Authorized		
Unlimited common shares		
Issued		
Common shares	**35,417,100**	35,417,100
Deficit	**(2,335,883)**	(2,262,455)
	33,081,217	33,154,645
	53,519,287	53,750,698

See accompanying notes to consolidated financial statements

On behalf of the Board

Director "Salvatore Fuda"

Director "Gary Conn"

Echo Energy Canada Inc.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND RETAINED EARNINGS (DEFICIT)

For the three month period ended March 31,

	2006	2005
	$	$
	[unaudited]	[unaudited]
REVENUE		
Gross sales	**700,522**	898,714
Less: Royalties	**43,250**	18,514
Net sales	**657,272**	880,200
Interest	**3,637**	3,503
Total revenue	**660,909**	883,703
EXPENSES		
Transportation	**53,842**	88,571
Operations	**129,533**	227,728
Depreciation, depletion and amortization	**51,641**	76,471
Professional fees	**225,425**	211,877
General and administrative expenses	**111,228**	109,698
Interest on long-term debt	**86,969**	67,925
Interest and bank charges	**828**	1,606
	659,466	783,876
Earnings (loss) before the undernoted	**1,443**	99,827
Equity loss from Ontex Resources Limited *[note 6]*	**(10,412)**	—
Equity loss from Echo Power Generation Inc. *[note 7]*	**(83,459)**	(112,177)
Net earnings (loss) before income taxes	**(92,428)**	(12,350)
Future income tax recovery (expense) *[note 10]*	**19,000**	(16,800)
Net earnings (loss)	**(73,428)**	(29,150)
Deficit, beginning of year	**(2,262,455)**	(2,698,540)
Deficit, end of year	**(2,335,883)**	(2,727,690)
Basic and diluted loss per share *[note 11[b]]*	**$ (0.001)**	$ (0.001)

See accompanying notes to consolidated financial statements

Echo Energy Canada Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three month period ended March 31,

	2006	2005
	$	$
	[unaudited]	[unaudited]
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings (loss)	**(73,428)**	(29,150)
Items not affecting cash		
Future income tax recovery (expense)	**(19,000)**	16,800
Depreciation, depletion and amortization	**51,641**	76,471
Equity loss from Echo Power Generation Inc.	**83,459**	112,177
Asset retirement obligation	**—**	1,100
Change in non-cash operating working capital *[note 14]*	**115,010**	445,824
	157,682	623,222
FINANCING ACTIVITIES		
Bank indebtedness	**—**	1,000,000
Advances to Echo Power Generation Inc.	**(155,000)**	—
Repayments from (advances to) Ontex Resources Limited	**689,648**	(97,546)
	534,648	902,454
INVESTING ACTIVITIES		
Purchase of property and equipment	**(221,497)**	(720,492)
Acquisition of oil and gas leases	**(393,585)**	(205,157)
Investment in Ontex Resources Limited	**(801,358)**	—
	(1,416,440)	(925,649)
Increase (decrease) in cash and cash equivalents	**(724,110)**	600,027
Cash and cash equivalents, beginning of year	**1,555,875**	(90,560)
Cash and cash equivalents, end of year	**831,765**	509,467

See accompanying notes to consolidated financial statements

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2006

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Echo Energy Canada Inc. (the "Company") was incorporated on October 17, 1997 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., Pecho Pipelines Inc. and Echo Energy Inc. ("EEI"). The company and EEI were amalgamated on April 1, 2006 and continue as Echo Energy Canada Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management using Canadian generally accepted accounting principles. 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 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.

[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

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.

[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 weighted average number of common shares outstanding during the period, if dilutive, and calculated using the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2006

[k] Stock-based compensation

The Company recognizes stock based compensation expense when stock options are granted 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.

[l] Revenue

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

3. INVENTORY

	March 31, 2006 $	December 31, 2005 $
Natural gas in storage:		
12,942 mcf	—	34,911
35,600 mcf	64,882	—
	64,882	34,911

4. PROPERTY AND EQUIPMENT

	March 31, 2006		
	Cost $	**Accumulated amortization** $	**Net book value** $
Automobile	66,730	15,544	51,186
Gas gathering pipeline and compressor system	6,301,866	45,453	6,256,413
	6,368,596	60,997	6,307,599

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2006

	December 31, 2005		
	Cost $	**Accumulated amortization** $	**Net book value** $
Automobile	65,120	10,978	54,142
Gas gathering pipeline and compressor system	6,081,979	42,119	6,039,860
	6,147,099	53,097	6,094,002

5. OIL AND GAS LEASES

	Acquisition $	**Exploration** $	**Total** $
Balance, December 31, 2004	**35,082,391**	**7,091,416**	**42,173,807**
Deferred exploration costs	—	1,100,138	1,100,138
Depreciation, depletion and amortization	—	(255,788)	(255,788)
Balance, December 31, 2005	**35,082,391**	**7,935,766**	**43,018,157**
Deferred exploration costs	—	393,585	393,585
Depreciation, depletion and amortization	—	(43,741)	(43,741)
Balance, March 31, 2006	**35,082,391**	**8,285,610**	**43,368,001**

[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 retains a 5% gross royalty until the Company has recovered all drilling costs or July 11, 2006, whichever is earlier, 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 Houghton leases.

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. The shares are subject to a four month hold period which will expire July 16, 2006.

Advances in the amount of $553,969 (December 31, 2005 - $398,969) are secured by a non-interest bearing note and a general security agreement granting a security interest in the assets of the company including its lease interests.

8. LONG-TERM DEBT

In January 2005, the Company secured a $6,000,000 revolving production facility. $5,000,000 of the facility was used to repay an interim loan which financed construction of the gas gathering pipeline and compressor system.

In October 2005, the facility credit limit was increased to $6,500,000 and the revolving period was extended from January 25, 2006 to July 31, 2006 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 31, 2006.

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, 2004, the Company accrued for an estimated total undiscounted asset retirement obligation of $355,000 discounted at the Company's current cost of financing to a present value of $21,900 based on a 60 year life in accordance with estimates prepared by independent consulting engineers. The estimate was increased to $23,000 as at December 31, 2005 with the passage of time. While rising discount rates have led to a decrease in the present value of the obligation as at March 31, 2006, the estimate has been stated at $23,000 at the end of the period. 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 has 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 in 2005 and 2004 of approximately 40% to earnings (loss) before income taxes as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2006

	March 31, 2006 $	March 31, 2005 $
Expected income tax recovery (expense) using statutory income tax rates	**(35,200)**	4,000
Resource allowance	**(4,000)**	(2,200)
Income (loss) not subject to income taxes	**37,700**	(16,700)
Reduction of substantively enacted rates	**(1,800)**	—
Non-deductible expenses	**22,300**	(1,900)
Future income tax recovery (expense)	**19,000**	(16,800)

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

	March 31, 2006 $	December 31, 2005 $
Property and equipment	**(28,100)**	(27,800)
Non-capital losses	**638,800**	561,200
Deferred exploration expenditures	**(2,390,500)**	(2,349,200)
Investment in Echo Power Generation Inc.	**(186,300)**	(169,300)
Tax effect pursuant to the business combination	**(11,861,200)**	(11,861,200)
	(13,827,300)	(13,846,300)

The Company has approximately $1,550,000 of operating losses that expire between 2006 and 2013.

11. SHARE CAPITAL

The Company has issued common shares as follows:

	Number of shares #	**Share capital** $
Balance, December 31, 2004	**51,201,915**	**34,236,150**
Shares issued pursuant to private placements	1,577,600	1,972,000
Costs of share issuance		(78,750)
Future tax impact of renunciation of development costs expended	—	(712,300)
Balance, December 31, 2005	**52,779,515**	**35,417,100**
Changes during the period	—	—
Balance, March 31, 2006	**52,779,515**	**35,417,100**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2006

[a] Escrow shares

Pursuant to an escrow agreement dated October 14, 1998, between the Company and Ontex, 1,226,838 pre-split common shares of the Company held by Ontex were originally deposited in escrow. Under the terms of the escrow agreement, 368,051 shares were automatically releasable to Ontex, through to October 15, 2001, based upon the passage of time. Under the agreement, the remaining 858,786 pre-split shares (or 2,576,358 post-split shares) were releasable upon approval from the Ontario Securities Commission based upon certain expenditures on mineral exploration properties, the achievement of a specific five-year cumulative cash flow and the attainment of commercial production. Ontex made application for release of the shares in 2005 and received consent for release in December 2005.

[b] Earnings per share

	March 31, 2006 $	March 31, 2005 $
Basic and diluted loss per share computation		
Numerator:		
Net earnings (loss)	**(73,428)**	(29,150)
Denominator:		
Weighted average common shares outstanding	**52,779,515**	51,201,915
Escrowed shares	—	(858,786)
	52,779,515	50,343,129
Basic and diluted earnings (loss) per share	**(0.001)**	(0.001)

[c] Issuance of Shares

During the year ended December 31, 2005, the Company completed private placements that resulted in the issuance of 1,577,600 flow through common shares at a price of $1.25.

[d] 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 preceeding 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.

The 4,700,000 options granted on October 28, 2004 are exercisable in whole or in part at any time prior to October 28, 2007 at the exercise price of $2.00 per common share. As at December 31, 2005 none of the options have been exercised and none have expired. A total of 420,000 shares remain available for issuance under the stock option plan.

12. COMMITMENTS

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 March 31, 2006, 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 $189,648 are expected to be paid under existing leases during 2006.

In addition, the Company entered into an agreement to lease compressor equipment with the following minimum lease commitment:

Year	$
2006	220,222
2007	146,816

13. RELATED PARTY TRANSACTIONS

All related party transactions have been recorded at the exchange amount. Current year and comparative amounts include payments made by the Company.

During the period ended March 31, 2006, the Company paid certain of its directors and executive officers $199,160 [2005 - $139,350] in consulting fees. The Company also paid $14,098 [2005 - $37,637] in respect of rent and office services to a company influenced by the Chairman.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2006

14. STATEMENT OF CASH FLOWS

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

	March 31, 2006 $	March 31 2005 $
Accounts receivable	**282,736**	(153,359)
Inventory	**(29,971)**	13,702
Prepaid expenses	**1,228**	3,555
Accounts payable and accrued liabilities	**(143,488)**	563,412
Accrued royalties	**4,505**	18,514
	115,010	445,824

[b] Supplemental cash flow information

	March 31, 2006 $	March 31, 2005 $
Interest received	**3,637**	3,503
Interest paid	**86,969**	67,925

15. COMPARATIVE AMOUNTS

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