

Consolidated Financial Statements

Echo Energy Canada Inc.

September 30, 2005

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”

(signed) Gary Conn, President

“Robert Gilmore”

(signed) Robert Gilmore, Chief Financial Officer

November 18, 2005

Echo Energy Canada Inc.

Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEET

	September 30, 2005 \$ [unaudited]	December 31, 2004 \$ [audited]
ASSETS		
Current assets		
Cash and cash equivalents	425,777	—
Term deposits	213,000	213,000
Accounts receivable	524,141	223,984
Inventory <i>[note 4]</i>	43,191	122,389
Advances to Ontex Resources Ltd.	572,662	160,816
Advances to Echo Power Generation Inc.	9,469	9,469
Prepays	—	3,555
	1,788,240	733,213
Non-current assets		
Capital assets, net <i>[note 5]</i>	6,087,188	5,293,143
Oil and gas leases <i>[note 6]</i>	42,455,876	42,173,807
Investment in Echo Power Generation Inc. <i>[note 7]</i>	1,011,264	1,568,458
	51,342,568	49,768,621
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank overdraft	—	90,560
Accounts payable and accrued liabilities	273,258	326,275
Accrued royalties	106,725	15,776
	379,983	432,611
Long-term debt <i>[note 8]</i>	6,000,000	5,000,000
Asset retirement obligation <i>[note 9]</i>	23,000	21,900
Future income taxes <i>[note 10]</i>	12,900,800	12,776,500
	19,303,783	18,231,011
Commitments <i>[note 12]</i>		
Shareholders' equity		
Share capital		
Authorized		
Unlimited common shares		
Issued		
Common shares <i>[note 11]</i>	34,733,150	34,236,150
Deficit	(2,694,365)	(2,698,540)
	32,038,785	31,537,610
	51,342,568	49,768,621

See accompanying notes to consolidated financial statements

On behalf of the Board

<u>"Salvatore Fuda"</u> Director	<u>"Gary Conn"</u> Director
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Echo Energy Canada Inc.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

For the,

	three month period ended		nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	\$	\$	\$	\$
	[unaudited]	[unaudited]	[unaudited]	[unaudited]
REVENUE				
Gross sales	1,093,607	—	3,071,017	—
Less: Royalties	89,128	—	191,342	—
Net sales	1,004,479	—	2,879,675	—
Interest	2,740	3,303	6,299	13,093
Total revenue	1,007,219	3,303	2,885,974	13,093
EXPENSES				
Transportation	39,111	—	179,512	—
Operations	160,458	—	577,670	—
Depreciation, depletion and amortization	98,967	108	261,181	108
Professional, management and consulting <i>[note 13]</i>	139,770	55,342	731,827	243,760
General and administrative expenses <i>[note 13(b)]</i>	46,386	8,454	220,275	82,435
Interest on long-term debt	72,801	—	226,807	—
Interest and bank charges	54	2,697	3,033	4,931
	557,547	66,601	2,200,305	331,234
Income (loss) before the undernoted	449,672	(63,298)	685,669	(318,141)
Equity loss from Echo Power Generation Inc.	(305,343)	(64,890)	(557,194)	(166,380)
Future income tax recovery (expense) <i>[note 10]</i>	(86,100)	32,000	(124,300)	118,000
Net earnings (loss)	58,229	(96,188)	4,175	(366,521)
Deficit, beginning of period	(2,752,594)	(810,187)	(2,698,540)	(539,854)
Deficit, end of period	(2,694,365)	(906,375)	(2,694,365)	(906,375)
Basic and diluted loss per share <i>[note 11[b]]</i>	0.001	(0.009)	0.000	(0.030)

See accompanying notes to consolidated financial statements

Echo Energy Canada Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the,

	three month period ended		nine month period ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	\$	\$	\$	\$
	[unaudited]	[unaudited]	[unaudited]	[unaudited]
Cash provided by (used in)				
OPERATING ACTIVITIES				
Net loss	58,229	(96,188)	4,175	(366,521)
Items not affecting cash				
Future income tax recovery	86,100	(32,000)	124,300	(118,000)
Amortization	98,967	108	261,181	108
Equity loss from Echo Power Generation Inc.	305,343	64,890	557,194	166,380
Asset retirement obligation	—	—	1,100	—
Change in non-cash operating working capital <i>[note 14]</i>	(286,878)	(1,534,865)	(179,472)	(894,058)
	261,761	(1,598,055)	768,478	(1,212,091)
FINANCING ACTIVITIES				
Bank indebtedness	—	—	1,000,000	—
Due from Echo Power Generation Inc.	—	—	—	(44)
Due from Ontex Resources Limited	(170,432)	18,208	(411,846)	24,542
Due to Echo Energy Canada Inc. on amalgamation	—	(1,016,717)	—	(1,112)
Issue of common shares	497,000	—	497,000	—
	326,568	(998,509)	1,085,154	23,386
INVESTING ACTIVITIES				
Cash acquired on amalgamation	—	299,903	—	299,903
Purchase of capital assets	(56,108)	(62,587)	(799,160)	(1,648,668)
Acquisition of oil and gas leases	(130,862)	122,397	(538,135)	(482,830)
Investment in Echo Power Generation Inc.	—	—	—	—
Investment in term deposits	—	500,000	—	(23,000)
	(186,970)	859,713	(1,337,295)	(1,854,595)
Increase (decrease) in cash and cash equivalents	401,359	(1,736,851)	516,337	(3,043,300)
Cash and cash equivalents, beginning of period	24,418	155,245	(90,560)	1,461,694
Cash and cash equivalents, end of period	425,777	(1,581,606)	425,777	(1,581,606)

See accompanying notes to consolidated financial statements

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

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 Limited, Pecho Pipelines Inc. and Echo Energy Inc. ("EEI"). As a result of a reverse takeover business combination [note 2], the financial statements are shown as a continuation of EEI including the comparative financial statements.

2. BUSINESS COMBINATION

During the prior year, the Company completed an amalgamation, pursuant to an amended and restated pre-amalgamation agreement among the Company, EEI and Subco dated June 11, 2004, whereby shareholders of EEI acquired 61% of the outstanding shares of Echo Energy Canada Inc. Accordingly, reverse takeover principles were applied to account for the transaction.

The transaction was accounted for by the purchase method. The share exchange ratio was determined through negotiations between an independent committee of the board of the Company and the board of EEI. Amongst other aspects, the parties considered a valuation and fairness opinion prepared by Dundee Securities Corporation ("Valuator") dated March 4, 2004. The net asset valuation of oil and gas leases and the investments in EEI and Echo Power Generation Inc. were derived by the Valuator from a discounted cash flow analysis based on operating models and long-term business plans provided by management of the Company for the development of the oil and gas leases. The transaction was a related party transaction and the purchase consideration was recorded at the exchange amount.

3. 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.

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

[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.

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

[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] Capital assets

The Company records capital assets 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 capital assets exceeds fair value.

[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 substantially 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 and advances to related parties reflected in the consolidated balance sheets approximate their respective fair values due to their short-term nature.

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

[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.

[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.

4. INVENTORY

	September 30, 2005	December 31, 2004
	\$	\$
Natural gas in storage:		
29,275 mcf	—	122,389
8,144 mcf	43,191	—
	43,191	122,389

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

5. CAPITAL ASSETS

	September 30, 2005		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobile	65,120	6,267	58,853
Gas gathering pipeline and compressor system	6,063,672	35,337	6,028,335
	6,128,792	41,604	6,087,188

	December 31, 2004		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Automobile	5,760	1,152	4,608
Gas gathering pipeline and compressor system	5,295,078	6,543	5,288,535
	5,300,838	7,695	5,293,143

6. OIL AND GAS LEASES

	Acquisition	Exploration	Total
	\$	\$	\$
Balance, December 31, 2003	200,000	6,372,995	6,572,995
Acquired on business combination	34,882,391	—	34,882,391
Deferred exploration costs	—	1,033,537	1,033,537
Net revenues from sale of gas	—	(262,071)	(262,071)
Depreciation, depletion and amortization	—	(53,045)	(53,045)
Balance, December 31, 2004	35,082,391	7,091,416	42,173,807
Deferred exploration costs	—	515,780	515,780
Depreciation, depletion and amortization	—	(233,711)	(233,711)
Balance, September 30, 2005	35,082,391	7,373,485	42,455,876

[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

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

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.

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

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.

7. INVESTMENT IN ECHO POWER GENERATION INC.

In March 2003: (a) the Company acquired control of and reorganized a previously incorporated Ontario corporation, which was renamed Echo Power Generation Inc. ("EPG"), to acquire licence and easement options with land owners in Bayham Township, Ontario for purposes of exploring for and developing renewable energy sources with an emphasis on wind generated power; and (b) the Company and Echo Energy Inc., a predecessor of a wholly-owned subsidiary of the Company, each subscribed for and purchased 2,500,000 common shares of EPG for \$0.01 per share.

During the year ended December 31, 2003, EPG issued: (a) through private placements, a further 4,000,000 common shares at \$0.01 per share; and (b) 1,525,000 common shares at \$0.01 per share pursuant to license and easement option agreements entered into by EPG with land owners.

Also during the year ended December 31, 2003, EPG issued an additional 10,524,993 shares at \$0.05 per share pursuant to a rights offering in which the Company and Echo Energy Inc. each acquired an additional 2,500,000 common shares.

As a result of the business combination described in Note 2 which resulted in the merger of the Company with Echo Energy Inc., the Company acquired an additional 5,000,000 common shares valued at the exchange amount determined in accordance with the methodologies described in Note 2.

During the year ended December 31, 2004, EPG issued: (a) 1,150,000 non flow-through special warrants at \$1.00 per special warrant and 140,000 flow-through special warrants at \$1.40 per special warrant through private placements for aggregate proceeds of \$1,346,000; and (b) 532,277 flow-through common shares through private placements at \$1.40 per share for aggregate proceeds of \$745,188. Each special warrant entitled the holder to acquire one common share of EPG for no additional consideration at any time prior to May 31, 2005 at which time each special warrant was deemed to have been exercised and converted to one common share of EPG.

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

During the period ended September 30, 2005, EPG issued 96,428 additional flow-through special warrants at \$1.40 per special warrant through a private placement for proceeds of \$135,000.

As a result, the Company holds a 43.62% interest in EPG as follows:

	September 30, 2005	December 31, 2004
	\$	\$
Opening balance	1,568,458	101,490
Acquisition of common shares on business combination	—	1,830,608
Share of equity loss	(557,194)	(363,640)
	<u>1,011,264</u>	<u>1,568,458</u>

Subsequent to September 30, 2005, the Company loaned EPG \$389,500 in support of EPG's wind power projects which were bid into the Ontario Government's Request for Proposal (RFP) for renewable energy.

8. LONG-TERM DEBT

During the prior year, the Company secured a credit facility of \$5,000,000 consisting of an interim construction loan and a demand revolving reducing term loan with a maturity date of March 10, 2005. The credit facility had been classified as long-term debt consistent with the terms of the subsequent refinancing which defers repayment to 2006, or later if the term is extended, as discussed below.

The Company also obtained from the lender, backing for letters of credit and stand-by letters of guarantee for up to \$500,000 and issued a letter of credit pursuant to this facility in the amount of \$500,000.

The credit facility assisted in the construction of the gas gathering pipeline and compressor system.

In January 2005, as a replacement of the foregoing credit facilities, the Company secured a \$6,000,000 revolving production facility which was fully drawn as at January 28, 2005. \$5,000,000 of the facility was used to repay the interim construction loan and demand revolving reducing term loan.

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

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

for a further 364 day period or converted to a one year term with quarterly principal payments of \$325,000, 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 prior year, effective with the commencement of operations, the Company accrued for an estimated total undiscounted asset retirement obligation at December 31, 2004 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 has increased to \$23,000 as at September 30, 2005 with the passage of time. 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. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates in 2005 and 2004 of approximately 40% to loss before income taxes as follows:

	September 30, 2005	September 30, 2004
	\$	\$
Expected income tax recovery (expense) using statutory income tax rates	(260,100)	114,700
Resource loss	32,800	(25,900)
Loss (income) not subject to income taxes	105,800	33,000
Non-deductible expenses	(2,800)	(3,800)
Income tax recovery (expense)	(124,300)	118,000

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

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

	September 30, 2005 \$	December 31, 2004 \$
Non-capital losses	386,800	513,700
Deferred exploration expenditures	(1,377,600)	(1,327,500)
Investment in Echo Power Generation Inc.	(48,800)	(101,500)
Tax effect pursuant to the business combination	(11,861,200)	(11,861,200)
	(12,900,800)	(12,776,500)

The Company has approximately \$957,100 of operating losses that expire between 2005 and 2011.

11. SHARE CAPITAL

Pursuant to the Amalgamation, the share capital is deemed to be the continuation of the share capital of EEI as follows:

	Number of shares #	Share capital \$
Share capital, December 31, 2003	6,654,404	8,099,908
Shares issued pursuant to the Amalgamation	10,412,901	24,622,242
Increase resulting from share split [c] below	34,134,610	—
Fair value of options granted in year [e] below	—	1,514,000
Balance, December 31, 2004	51,201,915	34,236,150
Shares issued pursuant to private placements	397,600	497,000
Balance, September 30, 2005	51,599,515	34,733,150

[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) are 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 has made application for release of the shares.

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[b] Earnings per share

	September 30, 2005 \$	September 30, 2004 \$
Basic and diluted loss per share computation		
Numerator:		
Net loss	4,175	(366,521)
Denominator:		
Weighted average common shares outstanding	51,443,743	11,149,871
Escrowed shares	(2,576,358)	(858,786)
	48,867,385	10,291,085
Basic and diluted earnings (loss) per share	0.000	(0.03)

[c] Share Split

Pursuant to a special resolution of the shareholders at the annual and special meeting of the Company held on August 17, 2004, the Board of Directors of the Company authorized a split of the Company's common shares on a 3-for-1 basis effective October 15, 2004. As a result of the share split, the Company's issued and outstanding common shares increased from 17,067,305 to 51,201,915 shares.

[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 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.

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 September 30, 2005 none of the options have been exercised and none have expired. 420,000 shares remain available for issuance under the plan.

[e] Share compensation expense

The fair value of the options granted in 2004 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk

Echo Energy Canada Inc.

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For the nine month period ended September 30, 2005

free interest rate of 4.25%, expected dividend yield of 0%, expected volatility of 13.7% and expected option life of three years. The weighted-average fair value of the options granted during the fourth quarter of 2004 were \$0.32 as follows:

Number of options granted	Fair value per option	Total fair value
4,700,000	\$0.32	\$1,514,000

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.

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 September 30, 2005, 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 with the following minimum lease commitments:

Year	\$
2005	186,400
2006	155,200
2007	143,600
2008	134,300
2009	134,100
Thereafter to 2013	272,600

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.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

Year		\$
2005		220,222
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 and by Echo Energy Inc.

- [a] During the period ended September 30, 2005, the Company paid certain of its directors and executive officers \$418,050 [2004 - \$334,300] in consulting fees. The Company also paid \$63,881 [2004 - \$72,401] in respect of rent and office services to a company influenced by the Chairman.
- [b] Ontex has two common directors with the Company, and is a significant shareholder in the Company. Ontex owns 13.64% of the Company's outstanding shares at September 30, 2005 [2004 - 9.57%]. The amount due from Ontex of \$572,662 [December 31, 2004 - \$160,816] is non-interest bearing and payable on demand.

14. STATEMENT OF CASH FLOWS

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

	September 30, 2005 \$	September 30, 2004 \$
Accounts receivable	(300,157)	(464,681)
Inventory	79,198	—
Prepaid expenses	3,555	(1,267)
Accounts payable and accrued liabilities	(53,016)	(439,964)
Accrued royalties	90,949	11,854
	(179,472)	(894,058)

Echo Energy Canada Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended September 30, 2005

[b] Supplemental cash flow information

	September 30, 2005	September 30, 2004
	\$	\$
Interest received	6,299	18,469
Interest paid	226,807	50,000

15. COMPARATIVE AMOUNTS

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