



Epsilon Energy Ltd.
150 Jardin Drive, Suite 9
Concord, ON L4K 3P9
Phone: 905-738-7877

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Epsilon Energy Is Well Positioned With Its Marcellus Property In Pennsylvania Being One Of The Hottest Natural Gas Plays In The United States While Developing Other Well Properties In Canada And Internationally In Oman, Yemen And Ethiopia

Energy
Oil & Gas
(EPS-TSX)

Richard A. Collins
V.P. Land & Business Development

BIO:

RICHARD A. COLLINS - VP Land & Business Development, Epsilon Energy Ltd.

- 20 years of oil and gas experience, land, regulatory, management

- General Manager, of Western Land Services 1987-1999, assisted on 1500 wells, 9 states

- Manager, CMS Energy; Powder River Basin / CMS 500 wells in 3 years, 40 MCMCFD

Company Profile:

Epsilon Energy Ltd. is engaged in the exploration and production of oil and natural gas reserves in North America, the Middle East, and Africa. Epsilon Energy has leasehold interests covering approximately 1,302,000 gross (303,000 net) leasehold acres in North America and approximately 22,876,000 gross (22,267,000 net) acres in the Middle East and Africa.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Collins, what is the vision and focus of Epsilon?

Mr. Collins: "Epsilon is focused two-fold. First, we are focused on North American unconventional plays that we have in the Appalachian basin. One is the Marcellus in northeast Pennsylvania and south central New York. Marcellus is one of 'the' if not 'the' hottest natural gas

plays in the United States right now. We also own through our relationship with Gastem, Inc. (TSXV: GMR), another Canadian company quite a bit of acreage up in Utica shale, and the St. Lawrence Lowlands in the Gaspé Peninsula in Quebec. We are also involved in the Bakken shale in the southeast Saskatchewan province. In fact, we are starting our first well this week which is an oil play. Internationally our focus is on oil projects, we have concessions in the countries of Oman, Yemen and Ethiopia."

CEOCFO: Why did you make the decision to go with the unconventional play?

Mr. Collins: "Our management team has a lot of experience with the unconventional, especially the gas plays. Some of us have been involved in one way or another in various unconventional gas plays since the 1980's in North America. It has been for the last five years probably the hottest thing going in North America. In fact, it has been too hot and too successful one could argue. We are in the situation now in the US where we are actually over-supplied with gas because companies have been so successful in exploiting some of the large unconventional natural gas plays like the Barnett shale and the Fayetteville shale."

CEOCFO: Please tell us more about the properties you have, what makes them special?

Mr. Collins: "We would like to believe that our position in Pennsylvania and in New York is one of the best if not the best positions in the Marcellus play. We have had some very encouraging results to date. We are in the process in the next thirty to ninety days to exponentially increase our gas production where we could

double it soon and in another sixty to ninety days double it again, and potentially double that production again. We've drilled 8 wells to date and all of them are going to be productive natural gas wells, so we are very excited about the prospects that that has especially knowing that we have enough growth in those projects that combined with Pennsylvania and New York we could probably drill another couple hundred wells."

CEOCFO: How does the company divide between the US and foreign, and is there a focus in the mix or is it just opportunistic?

Mr. Collins: "At this point our focus is mostly on the North American asset just because it is proven and we have had very good success with them. A year ago we were equally focused on the drilling oil wells and we had what we believed what was a very strong prospect. Unfortunately, none of them were commercial. They all had various degrees of hydrocarbon shows, but we weren't able to get enough oil out of the rock to deem them commercial. At this point with the success that we have had on the North American side, we have decided to focus the majority of our money on that project."

CEOCFO: What is the financial picture like for you?

Mr. Collins: "We are slightly under capitalized. We have enough money in the bank to execute our program through the end of 2009 when we start bringing the Marcellus drilling online and we will be cash flow positive by the end of the year. But to fully exploit all of the projects we have, we will probably looking to raise some more capital. We have a lot of op-

tions available to us, we will look at all those options and hopefully by the end of the year early next year we will exercise one of those options. However, a lot of it depends on stock price. Our stock price we believe is grossly undervalued right now, so that kind of limits our ability to the equity markets, but if we get some positive response from the market with results from our North American drilling and production, then we would entertain that thought, but not at the current low price.”

CEOCFO: What is your two-minute take on the economic situation in energy?

Mr. Collins: “Certainly with the macro economic situation, the two things we are involved in are North American gas, and international oil. We are bullish on both. Currently pricing is at an all-time low in the North American gas market because of the foresaid success of companies in the unconventional plays. However, the reason we are bullish is we have seen a drastic drop off in rigs. It is down to 600 plus or minus rigs drilling natural gas wells, and there were about 1,600 a year ago. So at some point that loss of new production coming on line from the lack of rigs, combined with the decline curve that exists in production, there is going to be a moment of truth, where the prices are going to rebound. It is also going to be hopefully an economic kicker that when the economy improves and industrial use picks up that there will be a similar push there. There are also some unforeseen things such as a lot of political appeal to using natural gas at the source, not just for existing heating supply, but also increasing use for electric generation and we see that potential increasing. There has been discussion of making it more of a transportation fuel. They have been pushing very hard for more use of natural gas in the transportation sector and that certainly adds to the bullish attitude in natural gas. Oil’s current pricing is quite a bit stronger than what it was six months ago. We are also bullish on international oil and we look at the international driv-

ers now, such as the Chinese economy, the Indian economy, and Southeast Asia; obviously those economies are going to be very dependent upon the use of oil to grow and that is the bullish attitude for long-term for oil prices.”

CEOCFO: What does Epsilon, as a company, know about the industry that gives you the edge?

Mr. Collins: “On the domestic side our management team has got tremendous experience in the unconventional plays. Most of us have been doing it for twenty or twenty-five years if not longer. We have been involved with multiple thousands of wells and we think that experi-

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- Richard A. Collins

ence gives us a leg up on some of our competition in doing the things necessary to keep those projects going. The fact that we are small gives us more flexibility and a little more nimbleness and we have shown that in our results to date in the Marcellus play. On the international side most international fields are based on relationships and contacts and we have shown that for a company of our size that we have been able to get into some pretty desired areas in some large blocks that typically a company of our size doesn’t have access to.”

CEOCFO: Are there new technologies and new ways of going at it that you are looking at or using that attribute to your success?

Mr. Collins: “Typically in the oil and gas

business the new technologies tend to derive from the contract companies. You will find that most of the majors did away with their R&D departments and fifteen years ago during several of the heavy declines. Therefore, most of the technological innovations tend to come from the service companies. Certainly we stay on top of that as much as any other company and try to stay ahead of the game, but internally is there something that Epsilon is doing technologically that somebody else doesn’t know how to do? I don’t think you could say that of many if any of the E&P companies, because as an industry we have become very reliant on the service end of the business to do that R&D and come up with the innovations.”

CEOCFO: Why should potential investors be paying attention?

Mr. Collins: “Well certainly in the short-term and the near-term today, we believe we are grossly undervalued. We have projects that individually have been valued by competitor purchase offers that are far in excess of what the market is giving us with regards to our share price and our market cap. For example, there were two recently announced lease deals near our PA and NY acreage ranging from \$3500/acre to \$5500/acre. We believe some of our acreage is

worth more, some less. But if you assign those values to our acreage would mean asset value to Epsilon in the range of \$115M to \$181M. For only lease acreage in 2 of our projects. Yet our market cap has been hovering around the \$65M range. We understand why the marketplace maybe does not have a bullish opinion of us, but with the success that we are having in the Marcellus play, the growth potential, you will see the opportunity here in the next few months, which is pretty rapid appreciation based on results. We are willing to own up to that, willing to tell the market place, go ahead and wait for results, because we see it coming. So we are very bullish. We believe very strongly in our future growth potential.”