

ASX/MEDIA RELEASE
30 April 2008

REPORT FOR THE QUARTER ENDED MARCH 2008

HIGHLIGHTS

EXPLORATION AND CORPORATE

- Epsilon Board approves strategy to ***diversify exploration projects***, targeting advanced exploration projects in Iron Ore and Mineral Sands to compliment current Uranium exploration projects.
- New project generated with excellent prospectivity for large tonnage magnetite and high grade hematite ***Iron Ore deposits in the Pilbara Region***, WA.
- New advanced project generated with excellent prospectivity to define and extend zircon rich ***Mineral Sands deposits in the Eucla Basin***, WA.
- 1st Phase Drilling Results at Balladonia (Heartbreak) ***confirms uranium potential***
- 1st Phase Drilling at Balladonia (Balladonia North) commences where the target deposit model is ***Mulga Rock type uranium deposits***
- ***Advanced Geochemical sampling*** initiative commenced at the Balladonia Uranium Project, as a screening method, to detect mineralised ore body at depth
- ***3-D Data Modelling*** of Geological, Geophysical, Geochemical characteristics, including current and historical work commences on Balladonia project
- ***Joint Ventures*** non-core Uranium projects in WA and QLD

ENDS

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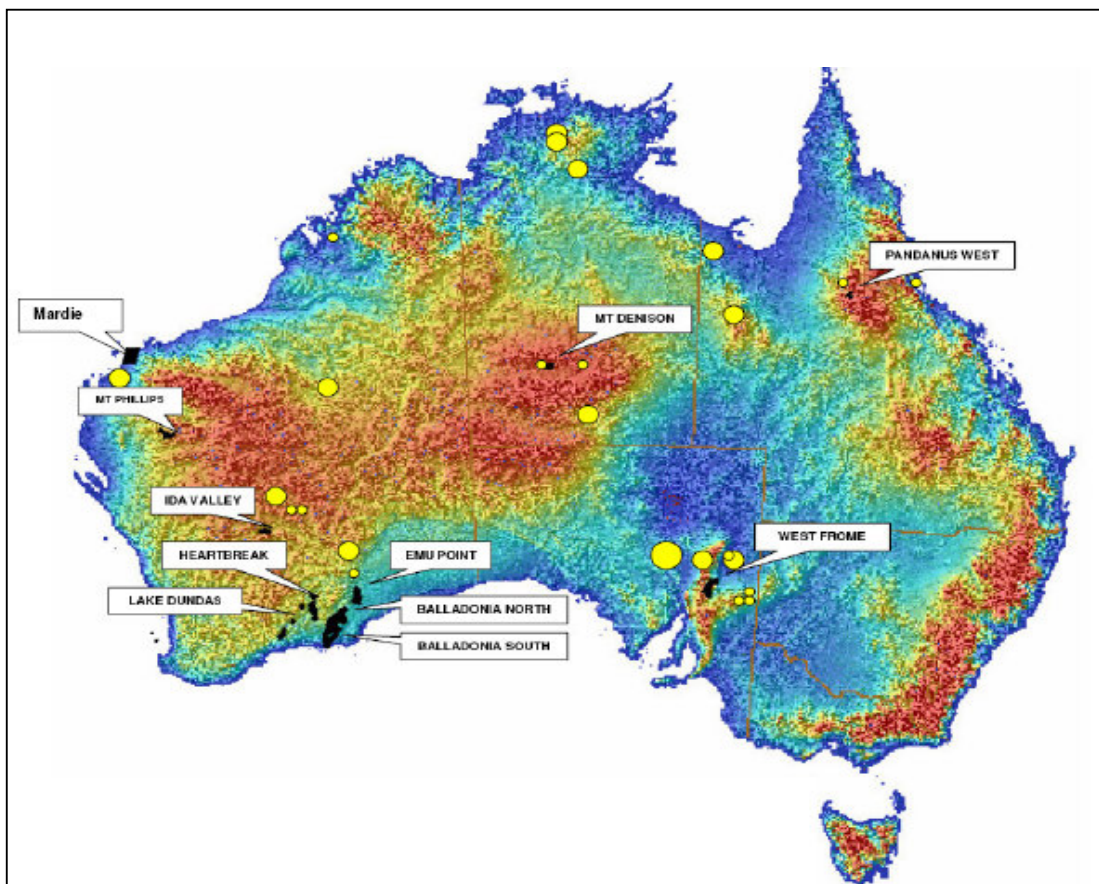
Or visit: www.epsilonenergy.com.au

1. Company Overview

Epsilon's project portfolio now covers approximately 11,000km² with 11 exploration projects in 4 different states targeting Uranium, Iron Ore and Mineral Sands. The project portfolio reflects a focus on exploration of early stage and more advanced targets, with careful consideration given to geological suitability to economic uranium, iron ore and mineral sands systems.

Epsilon is supported by a multi-disciplined and experienced board and management team. The Company's top 40 shareholders account for about 50% of the company's shareholding, while the Founders, Directors and Associates of the Company now accounting for about 30%.

Figure 1. Epsilon's Project Locations



2. Diversification Strategy

During the quarter the Epsilon board considered a number of exploration and mining opportunities in the resources industry and concluded the most value accretive proposition for investors was to pursue under explored and under developed projects in Iron Ore and Mineral Sands in Western Australia, as well as Uranium in the Northern Territory, particularly those with a low entry cost base, to compliment the company's successful exploration for uranium at the Balladonia Uranium project, in the Eucla Basin, WA.

The company subsequently generated new projects in Iron ore in the Pilbara and Mineral Sands in the Eucla Basin and is considering an additional Uranium project in the Northern Territory. All projects are generated at a low entry level cost with minimal annual expenditures.

3. Company Activities

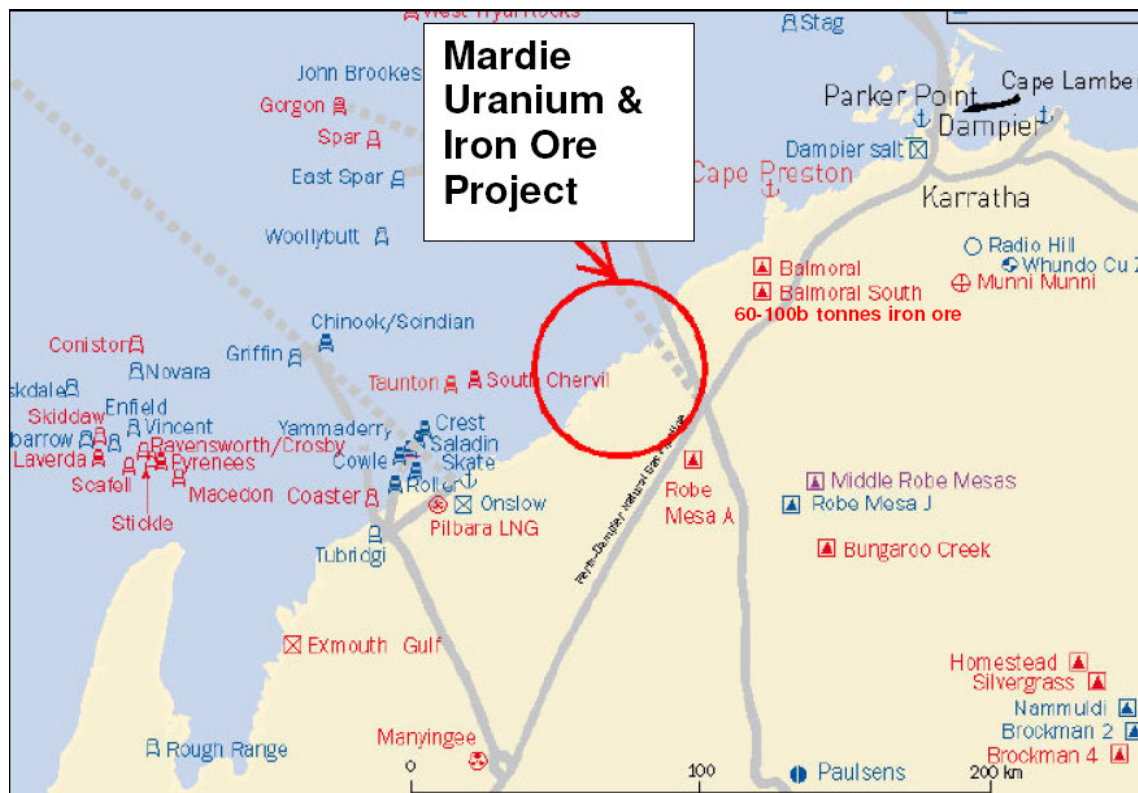
3.1 Mardie Iron Ore project

The Mardie Iron Ore project is prospective for large tonnage magnetite and high grade hematite Iron ore in the world class Pilbara mining region.

The project offers access to the coast, easy access to the major town of Karratha for labour and services, and sources of water in the Robe River delta, while energy is at hand with the Goldfields natural gas pipeline passing through the tenement.

To the north east of the tenement, the Balmoral deposit hosts an estimated 60-100 billion of tonnes of magnetite rich BIF iron ore, and development of the Balmoral deposits, Infrastructure and proposed public access Port Facilities is currently underway by Australasian Resources and Hong Kong-based CITIC Pacific. To the south east, extensive Channel Iron Deposits of iron rich alluvium, known as the Robe conglomerate, are being mined at Rio Tinto's Robe River Iron operations, most notably at the Mesa A and Mesa J operations

Figure 2. Mardie Project Location



The Mardie project represents a highly prospective iron ore exploration project and retains a competitive advantage over a number of iron ore exploration initiatives in WA including:

- Seeking large scale Magnetite and high grade Hematite products > potential project pipeline
- Coastal location > no major railway/slurry pipeline required
- Adjacent to major north west gas field > energy requirements at project doorstep
- Adjacent to robe river delta > water needs at project doorstep
- Close to major north west townships > providing ready access to labour and services
- Close to Asian markets for target deposit exports > multiple port site options

3.11 Magnetite Target

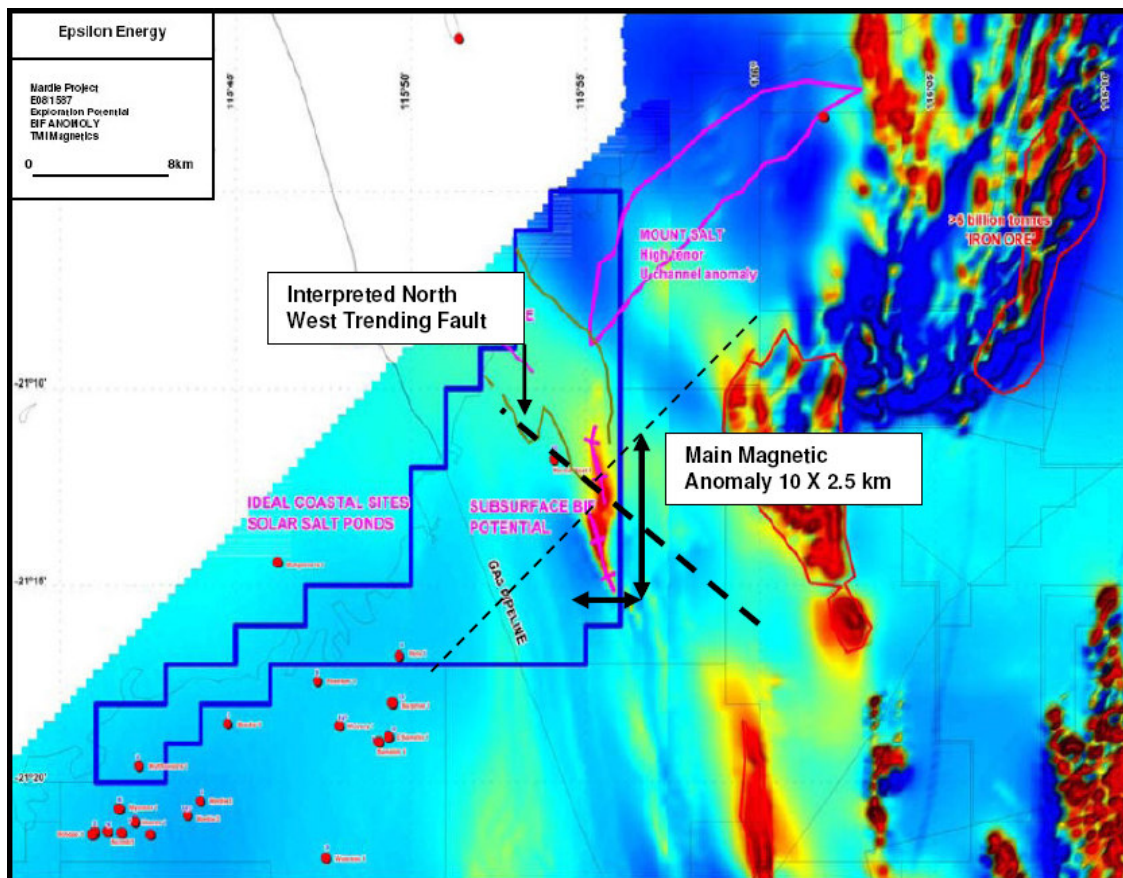
Analysis of the TMI magnetic data identified an extensive BIF anomaly interpreted as the Brockman Formation, which covers an area of 10km by 2.5 km, being a comparable size and independently interpreted to be of comparable quality, to the BIF signature of the Balmoral South deposit. The Balmoral South deposit has a published resource of 1,108Mt magnetite, grading 31.3% Fe, 25km to the NE of Mardie, and is being developed by Australasian. Metallurgical test work has revealed excellent quality of Magnetite ore and ability to produce a high quality concentrate of 69.2% Fe with very low impurity levels.

3.12 Hematite (Direct Shipping Ore) Target

Interpretation of the prospect has identified the potential for hematite mineralisation which is targeted within the major northwest trending fault that intersects the main magnetic body, and is interpreted to occur both within the trending fault, and above the main magnetic response, as an oxidise product. The Brockman and Marra Mamba formations are interpreted to occur both within and to the east of the tenement, representing a highly prospective target for Hematite mineralisation.

Desktop Exploration and Native Title negotiations has commenced, with the anticipation of grant, remote sensing surveys and drilling planned for the September Quarter 2008.

Figure 3. Magnetite and Hematite potential on TMI Magnetics



3.2 Balladonia Mineral Sands Project

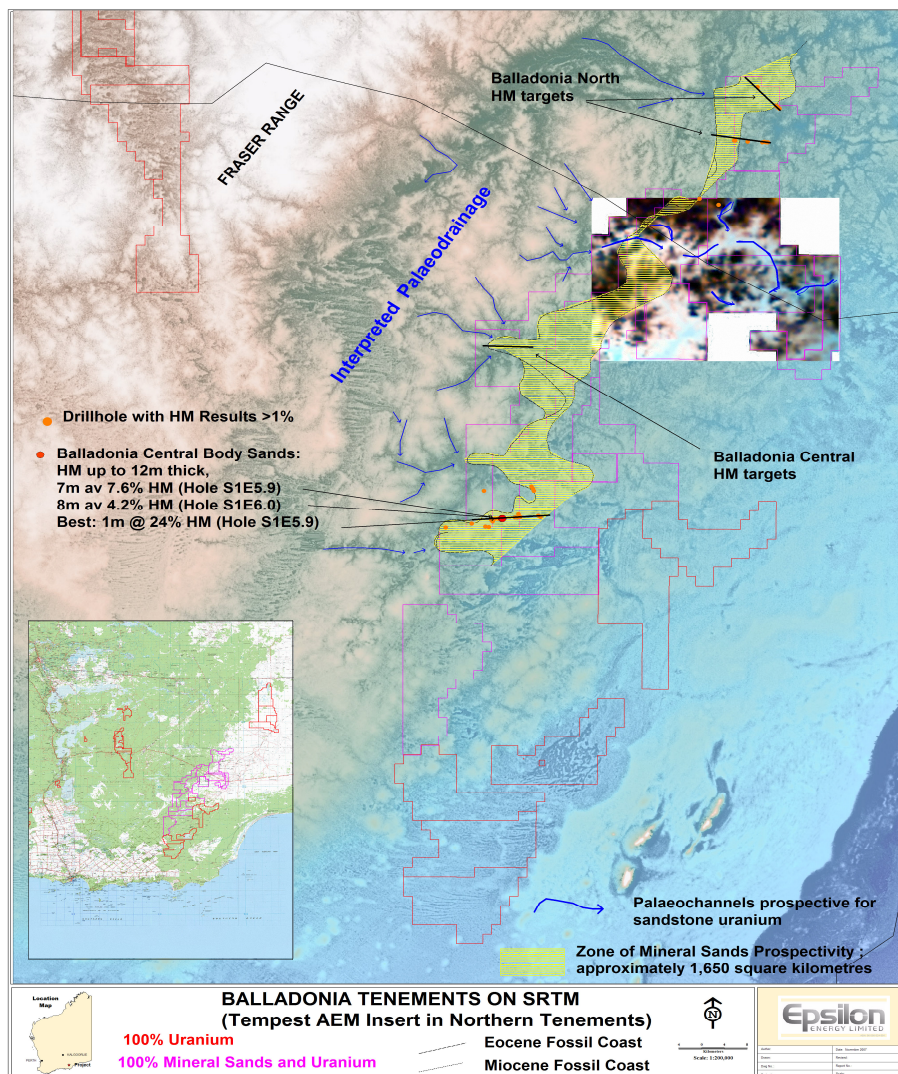
3.21 Mineral Sands Exploration

During the quarter the Company signed a farmin agreement with Heron Resources Limited covering 1650km² over 20 tenements for the rights to Mineral Sands, at the Balladonia Project. Epsilon already owns 100% of the Uranium rights in these tenements.

The Company has the right to earn 51% of the Mineral Sands rights by spending a minimum of \$150,000 in year 1 and a further 19% of those rights in Year 2 by spending \$250,000 (for a total of \$350,000 and 70% interest). Heron can contribute at the end of each earning period.

The Balladonia Project contains a number of underexplored Mineral Sands deposits along 3 levels of fossil coast that stretches over 200km. Epsilon is currently exploring for Uranium (Figure 4) in the Project. Previous explorers reported Zircon rich heavy Mineral Sands intersections with Zircon values up to 33% and HM up to 24%. The Company will move to define and upgrade the high grade mineralised zone to resource status during the June Quarter.

Figure 4. Balladonia Tenements Mineral Sands and Uranium prospectivity



3.3 Balladonia Uranium Project

3.31 Drilling Results from Heartbreak

During the quarter the Company completed a 1st Phase Drilling program at the Balladonia Uranium Project (Heartbreak) and successfully identified elevated levels of uranium mineralisation within a sedimentary sequence, confirming the presence of elevated uranium within the uppermost 24m and demonstrating that variations are occurring in redox conditions.

Figure 5. Heartbreak Drilling Traverses and Results

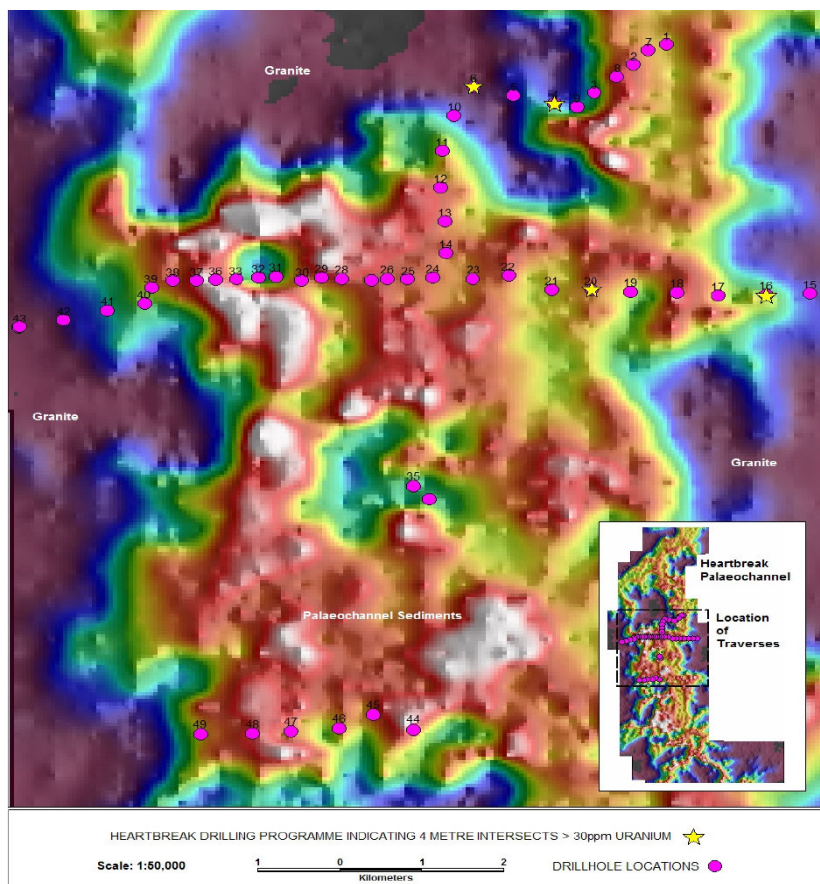


Table 1. Table of significant results from Heartbreak Drilling

SAMPLE	HOLE ID	From	To	U ppm
355528	HBAC02	16	20	27.7
355558	HBAC04	8	12	34.1
355559	HBAC04	12	16	66.3
355573	HBAC06	4	8	42.1
355676	HBAC15	16	20	17.4
355683	HBAC16	16	20	37.2
355698	HBAC17	12	16	27.9
355705	HBAC17	40	44	19.95
355741	HBAC20	24	28	35.2
355834	HBAC25	16	20	18.6
355905	HBAC30	16	20	23.6
356060	HBAC43	20	24	26.9
356061	HBAC43	24	29	39.3
356078	HBAC45	12	16	20.3
356090	HBAC46	12	16	14.85
356091	HBAC46	16	20	17.65

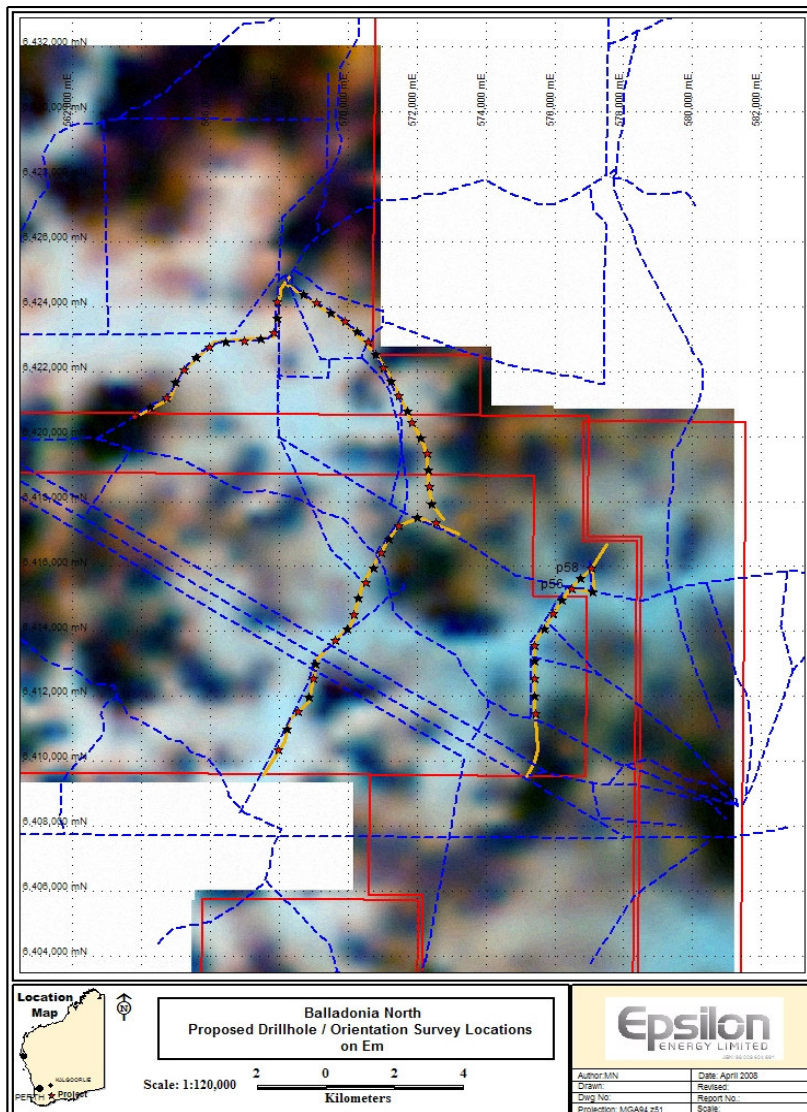
3.32 Drilling and Geochemical Campaign at Balladonia North

During the quarter the Company commenced an air core drilling campaign and geochemical sampling program at Balladonia North.

The drilling campaign commenced along three existing station tracks which cross-cut the palaeodrainage system elucidated by Tempest AEM survey of July 2007. A total of 30 drill holes spaced at 1km are underway with depths estimated at 60m. Drill holes will be drilled to refusal and samples will be collected every metre and logged in the field. Samples will be checked with the scintillometer and "hot" intervals will be measured with the Exploranium. The purpose of this programme is to better understand the stratigraphy and test the sequence for elevated uranium within the extrapolated palaeodrainage system.

Also during the quarter, an advanced geochemical program (MMI or partial digestion analysis and soil radon gas detection) commenced as first pass screening method at Balladonia North. MMI relies on a chemical digest stripping off "loosely" held ions from near surface molecular complexes that may have been formed from a mineralised body at depth. The orientation MMI and radon alpha track sites will be spaced at 500m intervals and there will be 60 sites.

Figure 6: Balladonia North Drilling Traverses



3.4 Uranium Project Joint Ventures.

During the quarter the Company reached an agreement with both Alara Uranium Limited (ASX:AUQ) and Southern Uranium Limited (ASX:SNU) to farm-out the Mt Phillips Project in the Gascoyne region of Western Australia, and the Pandanus West Project in the Georgetown-Townsville Uranium Field, Queensland, respectively.

The agreement with Alara Uranium allows for that Company to earn up to a 60% interest in two exploration licences (EL 09/1195 and EL 09/1196) totalling ~43,500 hectares by spending up to \$400,000 on exploration on the tenements within 2 years.

The agreement with Southern Uranium allows for that Company to earn up to 60% interest in one exploration license (EPM 15041) totalling 400km² by spending up to \$200,000 on exploration on the tenement within 2 years.

3.5 Corporate

During the quarter Matthew Gauci, Managing Director of Epsilon, became a substantial shareholder of the Company by via the acquisition of 938,435 shares. Mr Gauci's total holding now comes to 2,528,824 representing approximately 6% of the company.

Also during the quarter, Mr Robert Samuel (Sam) Middlemas was appointed to the role of Chief Financial Officer and Company Secretary, replacing Mr Kent Hunter.



Matthew Gauci
Managing Director



Stefan Gawlinski
Exploration Manager

The information in this report that related to Exploration is based on information compiled by Stefan Gawlinski who is a member of Australian Institute of Geoscientists. Stefan Gawlinski is Exploration Manager of Epsilon Energy Limited. Stefan Gawlinski has appropriate qualifications and sufficient knowledge and experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the exploration activity that he is undertaking. Stefan Gawlinski consents to the inclusion in this report of the matters based on his information in the form and context that it appears.