



News Release

EPSILON REPORTS FIRST QUARTER 2023 RESULTS

Houston, Texas—May 10, 2023 – Epsilon Energy Ltd. (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported first quarter 2023 financial and operating results along with the announcement of a new transaction.

First Quarter Financial Highlights:

- Reported net revenue interest (NRI) production of 2.5 Bcfe (27.3 MMcfe per day) for the quarter ended March 31, 2023
- Realized average price of \$2.98 per Mcfe including hedges (\$2.83 per Mcfe excluding hedges) for the quarter ended March 31, 2023
- Delivered total revenues of \$9.4 million for the quarter ended March 31, 2023, a decrease of 39% compared to the prior quarter.
 - \$7.0 million from natural gas, oil, and NGL sales;
 - \$2.4 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$0.4 million);
- Reported Adjusted EBITDA of \$5.6 million for the quarter ended March 31, 2023.
- Reported free cash flow (FCF) before changes in working capital of \$3.6 million for the quarter ended March 31, 2023
- Cash, cash equivalents (including restricted cash), and short term investments totaled \$49.8 million at March 31, 2023, an increase of 9% compared to December 31, 2022.
- Returned \$2.8 million to shareholders during the quarter ended March 31, 2023
 - \$1.4 million through the repurchase of 237,920 shares (average price of \$5.72 per share), representing a 1% reduction of shares outstanding
 - \$1.4 million through dividends
 - An additional 70,406 shares were purchased after the quarter end (average price of \$5.35 per share)
 - 2.2 million shares remain under the approved buyback (expires March 2024)
- Realized gains of \$0.4 million on Henry Hub (HH) and TGP Z4 basis swaps totaling 150,000 MMBTU. The current unrealized gain on the remaining hedge book for 2023 is over \$1.9 million at March 31, 2023.

First Quarter Operating Results:

Epsilon's capital expenditures were \$1.2 million for the quarter ended March 31, 2023. This capital was primarily related to the completion of two gross (0.02 net) Marcellus wells and the continuation of drilling one gross (0.11 net) well in Oklahoma.

At March 31, 2023, the Company has one gross (0.11 net) Oklahoma well waiting on completion.

Recent Transaction:

Epsilon is pleased to announce the closing of a drilling focused transaction with a private operator in the Permian Basin.

Epsilon acquired a 10% wellbore interest in two wells recently drilled and completed by a Houston-based private operator. The wells are located in Eddy County, New Mexico in the Northern Delaware Basin and were completed in the Wolfcamp A and C formations. The wells are currently on flow-back. Total capital expenditures (net to Epsilon) are estimated at \$2.1 million.

Jason Stabell, Epsilon's Chief Executive Officer, commented, "We delivered strong results in the first quarter. In a challenging commodity price environment we grew our cash balance 9% to \$50 million while simultaneously returning \$2.8 million to shareholders in dividends and buybacks.

We are excited to announce a development-focused transaction in a new project area in the Permian Basin, partnered with a basin-focused operator whose principals have a long operating history. We see this as a first step toward our growth objectives and a blueprint for future transactions.

Epsilon's strong balance sheet, diversified (upstream/midstream) revenue stream and large liquidity position, keep us well positioned to create value for our shareholders in this uncertain economic environment."

Earning's Call

The Company will host a conference call to discuss its results on Thursday, May 11, 2023 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time).

Interested parties in the United States and Canada may participate toll-free by dialing (833) 816-1385. International parties may participate by dialing (412) 317-0478. Participants should ask to be joined to the “Epsilon Energy First Quarter 2023 Earnings Conference Call”

A webcast can be viewed at:

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=b7kL4WcF>. A webcast replay will be available on the Company's website (www.epsilonenergyltd.com) following the call.

About Epsilon

Epsilon Energy Ltd. is a North American on-shore focused independent exploration and production company engaged in the acquisition, development, gathering and production of oil and gas reserves. Our primary area of operation is the Marcellus basin in Northeast Pennsylvania. For more information, please visit www.epsilonenergyltd.com, where we routinely post announcements, updates, events, investor information, presentations and recent news releases.

Forward-Looking Statements

Certain statements contained in this news release constitute forward looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe”, and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated. Forward-looking statements are based on reasonable assumptions, but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this news release should not be unduly relied upon.

Contact Information:

281-670-0002

Jason Stabell
Chief Executive Officer
Jason.Stabell@EpsilonEnergyLTD.com

Andrew Williamson
Chief Financial Officer
Andrew.Williamson@EpsilonEnergyLTD.com

EPSILON ENERGY LTD.
Unaudited Consolidated Statements of Operations
(All amounts stated in US\$)

	Three months ended March 31,	
	2023	2022
Revenues from contracts with customers:		
Gas, oil, NGL, and condensate revenue	\$ 6,969,581	\$ 11,479,325
Gas gathering and compression revenue	2,386,695	2,120,773
Total revenue	<u>9,356,276</u>	<u>13,600,098</u>
Operating costs and expenses:		
Lease operating expenses	1,404,279	1,405,490
Gathering system operating expenses	651,341	524,375
Development geological and geophysical expenses	—	2,386
Depletion, depreciation, amortization, and accretion	1,773,006	1,389,219
General and administrative expenses:		
Stock based compensation expense	179,748	142,302
Other general and administrative expenses	2,023,773	1,171,132
Total operating costs and expenses	<u>6,032,147</u>	<u>4,634,904</u>
Operating income	<u>3,324,129</u>	<u>8,965,194</u>
Other income (expense):		
Interest income	490,762	15,221
Interest expense	(28,437)	(15,319)
Gain (loss) on derivative contracts	1,068,660	(971,904)
Other income (expense)	1,635	(5,406)
Other income (expense), net	<u>1,532,620</u>	<u>(977,408)</u>
Net income before income tax expense	4,856,749	7,987,786
Income tax expense	1,326,922	2,181,898
NET INCOME	\$ 3,529,827	\$ 5,805,888
Currency translation adjustments	(2,600)	5,402
NET COMPREHENSIVE INCOME	<u>\$ 3,527,227</u>	<u>\$ 5,811,290</u>
Net income per share, basic	\$ 0.15	\$ 0.25
Net income per share, diluted	\$ 0.15	\$ 0.24
Weighted average number of shares outstanding, basic	22,990,893	23,677,842
Weighted average number of shares outstanding, diluted	23,027,684	23,862,428

EPSILON ENERGY LTD.
Unaudited Consolidated Balance Sheets
(All amounts stated in US\$)

	March 31, 2023	December 31, 2022
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 19,110,225	\$ 45,236,584
Accounts receivable	4,805,320	7,201,386
Short term investments	30,138,743	—
Fair value of derivatives	1,927,450	1,222,090
Prepaid income taxes	—	1,140,094
Other current assets	496,731	632,154
Operating lease right-of-use assets	—	31,383
Total current assets	<u>56,478,469</u>	<u>55,463,691</u>
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	149,323,372	148,326,265
Unproved properties	18,275,226	18,169,157
Accumulated depletion, depreciation, amortization and impairment	<u>(109,194,701)</u>	<u>(107,729,293)</u>
Total oil and gas properties, net	<u>58,403,897</u>	<u>58,766,129</u>
Gathering system	42,660,626	42,639,001
Accumulated depletion, depreciation, amortization and impairment	<u>(34,778,321)</u>	<u>(34,500,740)</u>
Total gathering system, net	<u>7,882,305</u>	<u>8,138,261</u>
Land	637,764	637,764
Buildings and other property and equipment, net	<u>318,805</u>	<u>286,035</u>
Total property and equipment, net	<u>67,242,771</u>	<u>67,828,189</u>
Other assets:		
Operating lease right-of-use assets, long term	532,013	—
Restricted cash	<u>571,324</u>	<u>570,363</u>
Total non-current assets	<u>68,346,108</u>	<u>68,398,552</u>
Total assets	<u>\$ 124,824,577</u>	<u>\$ 123,862,243</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 1,900,847	\$ 1,695,353
Gathering fees payable	867,533	935,012
Royalties payable	1,898,177	2,223,043
Income taxes payable	196,131	—
Accrued capital expenditures	348,135	41,694
Accrued compensation	233,172	598,351
Other accrued liabilities	257,788	690,655
Operating lease liabilities	<u>2,756</u>	<u>35,299</u>
Total current liabilities	<u>5,704,539</u>	<u>6,219,407</u>
<i>Non-current liabilities</i>		
Asset retirement obligations	2,801,056	2,780,237
Deferred income taxes	10,605,286	10,617,394
Operating lease liabilities, long term	<u>541,396</u>	<u>—</u>
Total non-current liabilities	<u>13,947,738</u>	<u>13,397,631</u>
Total liabilities	<u>19,652,277</u>	<u>19,617,038</u>
Commitments and contingencies (Note 10)		
<i>Shareholders' equity</i>		
Preferred shares, no par value, unlimited shares authorized, none issued or outstanding	—	—
Common shares, no par value, unlimited shares authorized and 22,926,444 shares issued and 22,879,224 shares outstanding at March 31, 2023 and 23,117,144 issued and outstanding at December 31, 2022	122,789,659	123,904,965
Treasury shares, at cost, 47,220 at March 31, 2023 and 0 at December 31, 2022	(252,119)	—
Additional paid-in capital	10,035,977	9,856,229
Accumulated deficit	(37,173,168)	(39,290,540)
Accumulated other comprehensive income	<u>9,771,951</u>	<u>9,774,551</u>
Total shareholders' equity	<u>105,172,300</u>	<u>104,245,205</u>
Total liabilities and shareholders' equity	<u>\$ 124,824,577</u>	<u>\$ 123,862,243</u>

EPSILON ENERGY LTD.
Unaudited Consolidated Statements of Cash Flows
(All amounts stated in US\$)

	Three months ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 3,529,827	\$ 5,805,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	1,773,006	1,389,219
(Gain) loss on derivative contracts	(1,068,660)	971,904
Settlement received (paid) on derivative contracts	363,300	(1,211,728)
Settlement of asset retirement obligation	—	(73,998)
Stock-based compensation expense	179,748	142,302
Deferred income tax expense (benefit)	(12,108)	22,686
Changes in assets and liabilities:		
Accounts receivable	2,396,066	(1,871,330)
Other assets and liabilities	143,646	104,177
Accounts payable, royalties payable and other accrued liabilities	(1,062,898)	267,058
Income taxes payable	1,336,225	2,157,292
Net cash provided by operating activities	7,578,152	7,703,470
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(106,069)	(92,600)
Additions to proved oil and gas properties	(621,132)	(2,771,925)
(Additions) disposals to gathering system properties	(12,423)	3,612
Additions to land, buildings and property and equipment	(42,703)	—
Purchases of short term investments	(30,138,743)	—
Net cash used in investing activities	(30,921,070)	(2,860,913)
Cash flows from financing activities:		
Buyback of common shares	(1,367,425)	—
Exercise of stock options	—	209,312
Dividends paid	(1,412,455)	(1,483,027)
Net cash used in financing activities	(2,779,880)	(1,273,715)
Effect of currency rates on cash, cash equivalents, and restricted cash	(2,600)	5,402
(Decrease) increase in cash, cash equivalents, and restricted cash	(26,125,398)	3,574,244
Cash, cash equivalents, and restricted cash, beginning of period	45,806,947	27,065,423
Cash, cash equivalents, and restricted cash, end of period	\$ 19,681,549	\$ 30,639,667
Supplemental cash flow disclosures:		
Interest paid	\$ 17,216	\$ 17,501
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 375,242	\$ (253,632)
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 9,201	\$ 19,005
Asset retirement obligation asset additions and adjustments	\$ 736	\$ 6,684

EPSILON ENERGY LTD.
Adjusted EBITDA Reconciliation
(All amounts stated in US\$)

	Three months ended March 31,	
	2023	2022
Net income	\$ 3,529,827	\$ 5,805,888
Add Back:		
Interest (income) expense, net	(462,325)	98
Income tax expense	1,326,922	2,181,898
Depreciation, depletion, amortization, and accretion	1,773,006	1,389,219
Stock based compensation expense	179,748	142,302
Gain on derivative contracts net of cash received or paid on settlement	(705,360)	(239,824)
Foreign currency translation loss	(983)	5,402
Adjusted EBITDA	\$ 5,640,835	\$ 9,284,983

Epsilon defines Adjusted EBITDA as earnings before (1) net interest expense, (2) taxes, (3) depreciation, depletion, amortization and accretion expense, (4) impairments of natural gas and oil properties, (5) non-cash stock compensation expense, (6) gain or loss on derivative contracts net of cash received or paid on settlement, and (7) other income. Adjusted EBITDA is not a measure of financial performance as determined under U.S. GAAP and should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with U.S. GAAP or as a measure of profitability or liquidity.

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that EBITDA provides useful information regarding its ability to service debt and to fund capital expenditures. It further provides investors a helpful measure for comparing operating performance on a "normalized" or recurring basis with the performance of other companies, without giving effect to certain non-cash expenses and other items. This provides management, investors and analysts with comparative information for evaluating the Company in relation to other natural gas and oil companies providing corresponding non-U.S. GAAP financial measures or that have different financing and capital structures or tax rates. These non-U.S. GAAP financial measures should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with U.S. GAAP.

EPSILON ENERGY LTD.
Free Cash Flow Reconciliation
(All amounts stated in US\$)

	Three months ended March 31	
	2023	2022
Net cash provided by operating activities	\$ 7,578,152	\$ 7,703,470
Less: Net cash used in investing activities (Capital Expenditures)	(782,327)	(2,860,913)
Free cash flow	\$ 6,795,825	\$ 4,842,557
Changes in working capital	(3,197,481)	4,839,153
Free cash flow before Changes in Working Capital	\$ 3,598,344	\$ 9,681,710

Epsilon defines Free Cash Flow (“FCF”) as net cash provided by operating activities in the period minus payments for property and equipment made in the period, adjusted to exclude changes in working capital. FCF is considered a non-GAAP financial measure under the SEC’s rules. Management believes, however, that FCF is an important financial measure for use in evaluating the Company’s financial performance, as it measures our ability to generate additional cash from our business operations. FCF should be considered in addition to, rather than as a substitute for, net income as a measure of our performance or net cash provided by operating activities as a measure of our liquidity. Additionally, our definition of FCF is limited and does not represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other obligations, payments made for business acquisitions, amounts spent to buy back shares, or pay dividends. Therefore, we believe it is important to view FCF as supplemental to our entire statement of cash flows