



News Release

EPSILON REPORTS SECOND QUARTER 2023 RESULTS

Houston, Texas–August 10, 2023 – Epsilon Energy Ltd. (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported second quarter 2023 financial and operating results.

Second Quarter Financial Highlights:

- Reported net revenue interest (NRI) production of 2.3 Bcfe (24.9 MMcfe per day) for the quarter ended June 30, 2023.
- Realized average price of \$2.45 per Mcfe including hedges (\$1.89 per Mcfe excluding hedges) for the quarter ended June 30, 2023.
- Delivered total revenues of \$6.5 million for the quarter ended June 30, 2023, a decrease of 31% compared to the prior quarter.
 - \$4.3 million from natural gas, oil, and NGL sales (including \$0.7 million from the recently acquired New Mexico properties), a decrease of 38% compared to the prior quarter
 - \$2.2 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), a decrease of 8% compared to the prior quarter
- Reported Adjusted EBITDA of \$4.2 million for the quarter ended June 30, 2023.
- Cash, cash equivalents (including restricted cash), and short term investments totaled \$36.8 million at June 30, 2023, a decrease of 26% compared to March 31, 2023, due to the Permian investments made during the quarter.
- Returned \$3.1 million to shareholders during the quarter ended June 30, 2023.
 - \$1.7 million through the repurchase of 325,055 shares (average price of \$5.17 per share), representing a 1% reduction of shares outstanding
 - \$1.4 million through the quarterly dividend
 - An additional 525,000 shares were repurchased after the quarter end in a block trade (at \$5.00 per share)
 - 1.4 million shares remain under the approved buyback program (expires in March 2024)
- Realized gains of \$0.6 million on Henry Hub (HH) and TGP Z4 basis swaps totaling 455,000 MMBTU. The current unrealized gain on the remaining hedge book for 2023 is \$1.3 million at June 30, 2023.

- Closed two liquids focused investments in the Permian Basin, as previously disclosed.
- Closed a new \$35 million credit facility, as previously disclosed.

Second Quarter Operating Results:

Epsilon's capital expenditures were \$12.4 million for the quarter ended June 30, 2023. This capital was primarily related to leasehold acquisitions costs in Ector Co. Texas (\$7.5 million), the drilling of one gross (0.25 net) well in Ector Co. Texas (\$2.4 million), the drilling and completion of two gross (0.2 net) wells in Eddy Co. New Mexico (\$2.1 million), and the completion of one gross (0.11 net) well in Dewey Co. Oklahoma (\$0.2 million).

At June 30, 2023, the Company has one gross (0.25 net) Ector Co. Texas well waiting on completion.

Jason Stabell, Epsilon's Chief Executive Officer, commented, "We had a solid quarter in a difficult natural gas price environment. We made two liquids focused investments in the Permian, added liquidity with a new credit facility, and returned \$3.1 million to our shareholders through a combination of dividends and share buybacks.

Early results on our New Mexico investment are very encouraging and activity is continuing in Texas which we expect to add additional oil volumes in the 4th quarter of this year.

Epsilon's increasingly diversified asset based and strong balance sheet keep us well positioned to continue to create value for our shareholders. An example of this is our opportunistic purchase of 525,000 shares in early July at \$5 per share."

Earning's Call:

The Company will host a conference call to discuss its results on Friday, August 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 Second Quarter 2023 Earnings Conference Call”.

A webcast can be viewed at:

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=f2b93UmU>. A webcast replay will be available on the Company's website (www.epsilonenergy.com) following the call.

About Epsilon

Epsilon Energy Ltd. is a North American onshore natural gas and oil production and gathering company with assets in Pennsylvania, Texas, New Mexico, and Oklahoma.

For more information, please visit www.epsilonenergy.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.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|------------------------------------|----------------------|----------------------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenues from contracts with customers: | | | | |
| Gas, oil, NGL, and condensate revenue | \$ 4,298,072 | \$ 17,915,836 | \$ 11,267,653 | \$ 29,395,161 |
| Gas gathering and compression revenue | 2,202,064 | 1,987,168 | 4,588,759 | 4,107,941 |
| Total revenue | <u>6,500,136</u> | <u>19,903,004</u> | <u>15,856,412</u> | <u>33,503,102</u> |
| Operating costs and expenses: | | | | |
| Lease operating expenses | 1,440,521 | 2,252,017 | 2,844,800 | 3,657,507 |
| Gathering system operating expenses | 570,934 | 541,228 | 1,222,275 | 1,065,603 |
| Development geological and geophysical expenses | — | 2,386 | — | 4,772 |
| Depletion, depreciation, amortization, and accretion | 1,615,728 | 1,803,739 | 3,388,734 | 3,192,958 |
| Loss (gain) on sale of oil and gas properties | 1,449,871 | (221,642) | 1,449,871 | (221,642) |
| General and administrative expenses: | | | | |
| Stock based compensation expense | 179,748 | 194,050 | 359,496 | 336,352 |
| Other general and administrative expenses | 1,596,626 | 1,465,143 | 3,620,399 | 2,636,275 |
| Total operating costs and expenses | <u>6,853,428</u> | <u>6,036,921</u> | <u>12,885,575</u> | <u>10,671,825</u> |
| Operating income (loss) | <u>(353,292)</u> | <u>13,866,083</u> | <u>2,970,837</u> | <u>22,831,277</u> |
| Other income (expense): | | | | |
| Interest income | 433,201 | 21,945 | 923,963 | 37,166 |
| Interest expense | (34,422) | (745) | (62,859) | (16,064) |
| Gain (loss) on derivative contracts | 628,178 | 776,994 | 1,696,838 | (194,910) |
| Other income (expense) | 3,066 | (61,713) | 4,701 | (67,119) |
| Other income (expense), net | <u>1,030,023</u> | <u>736,481</u> | <u>2,562,643</u> | <u>(240,927)</u> |
| Net income before income tax expense | 676,731 | 14,602,564 | 5,533,480 | 22,590,350 |
| Income tax expense | 246,142 | 4,019,576 | 1,573,064 | 6,201,474 |
| NET INCOME | \$ 430,589 | \$ 10,582,988 | \$ 3,960,416 | \$ 16,388,876 |
| Currency translation adjustments | 1,129 | (19,150) | (1,471) | (13,748) |
| Unrealized loss on securities | (47,006) | — | (47,006) | — |
| NET COMPREHENSIVE INCOME | <u>\$ 384,712</u> | <u>\$ 10,563,838</u> | <u>\$ 3,911,939</u> | <u>\$ 16,375,128</u> |
| Net income per share, basic | \$ 0.02 | \$ 0.45 | \$ 0.17 | \$ 0.69 |
| Net income per share, diluted | \$ 0.02 | \$ 0.44 | \$ 0.17 | \$ 0.69 |
| Weighted average number of shares outstanding, basic | 22,749,322 | 23,576,746 | 22,869,440 | 23,627,015 |
| Weighted average number of shares outstanding, diluted | 22,783,987 | 23,822,123 | 22,904,922 | 23,796,166 |

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

| | June 30, 2023 | December 31, 2022 |
|---|--------------------------|------------------------------|
| ASSETS | | |
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 9,488,094 | \$ 45,236,584 |
| Accounts receivable | 4,355,076 | 7,201,386 |
| Short term investments | 26,804,482 | — |
| Fair value of derivatives | 1,286,070 | 1,222,090 |
| Prepaid income taxes | 1,233,669 | 1,140,094 |
| Other current assets | 391,007 | 632,154 |
| Operating lease right-of-use assets | — | 31,383 |
| Total current assets | 43,558,398 | 55,463,691 |
| <i>Non-current assets</i> | | |
| Property and equipment: | | |
| Oil and gas properties, successful efforts method | | |
| Proved properties | 152,014,489 | 148,326,265 |
| Unproved properties | 25,989,679 | 18,169,157 |
| Accumulated depletion, depreciation, amortization and impairment | (109,996,874) | (107,729,293) |
| Total oil and gas properties, net | 68,007,294 | 58,766,129 |
| Gathering system | 42,673,506 | 42,639,001 |
| Accumulated depletion, depreciation, amortization and impairment | (35,026,730) | (34,500,740) |
| Total gathering system, net | 7,646,776 | 8,138,261 |
| Land | 637,764 | 637,764 |
| Buildings and other property and equipment, net | 312,830 | 286,035 |
| Total property and equipment, net | 76,604,664 | 67,828,189 |
| Other assets: | | |
| Operating lease right-of-use assets, long term | 495,842 | — |
| Restricted cash | 495,000 | 570,363 |
| Total non-current assets | 77,595,506 | 68,398,552 |
| Total assets | \$ 121,153,904 | \$ 123,862,243 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| <i>Current liabilities</i> | | |
| Accounts payable trade | \$ 1,334,008 | \$ 1,695,353 |
| Gathering fees payable | 498,438 | 935,012 |
| Royalties payable | 1,511,168 | 2,223,043 |
| Accrued capital expenditures | 134,224 | 41,694 |
| Accrued compensation | 405,448 | 598,351 |
| Other accrued liabilities | 467,387 | 690,655 |
| Operating lease liabilities | 24,748 | 35,299 |
| Total current liabilities | 4,375,421 | 6,219,407 |
| <i>Non-current liabilities</i> | | |
| Asset retirement obligations | 2,777,847 | 2,780,237 |
| Deferred income taxes | 10,847,721 | 10,617,394 |
| Operating lease liabilities, long term | 519,652 | — |
| Total non-current liabilities | 14,145,220 | 13,397,631 |
| Total liabilities | 18,520,641 | 19,617,038 |
| 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 22,649,290 shares issued and 22,554,169 shares outstanding at June 30, 2023 and 23,117,144 issued and outstanding at December 31, 2022 | 121,348,004 | 123,904,965 |
| Treasury shares, at cost, 95,121 at June 30, 2023 and 0 at December 31, 2022 | (497,814) | — |
| Additional paid-in capital | 10,215,725 | 9,856,229 |
| Accumulated deficit | (38,158,726) | (39,290,540) |
| Accumulated other comprehensive income | 9,726,074 | 9,774,551 |
| Total shareholders' equity | 102,633,263 | 104,245,205 |
| Total liabilities and shareholders' equity | \$ 121,153,904 | \$ 123,862,243 |

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

| | Six months ended June 30, | |
|---|----------------------------------|----------------------|
| | 2023 | 2022 |
| Cash flows from operating activities: | | |
| Net income | \$ 3,960,416 | \$ 16,388,876 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depletion, depreciation, amortization, and accretion | 3,388,734 | 3,192,958 |
| Accretion of discount on available for sale securities | (343,328) | — |
| Gain on available for sale securities | (47,659) | — |
| Loss (gain) on sale of oil and gas properties | 1,449,871 | (221,642) |
| (Gain) loss on derivative contracts | (1,696,838) | 194,910 |
| Settlement received (paid) on derivative contracts | 1,632,858 | (1,375,287) |
| Settlement of asset retirement obligation | — | (118,259) |
| Stock-based compensation expense | 359,496 | 336,352 |
| Deferred income tax expense (benefit) | 230,327 | 319,326 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 2,846,310 | (5,333,960) |
| Prepaid income taxes and other assets and liabilities | 332,214 | 328,872 |
| Accounts payable, royalties payable and other accrued liabilities | (1,910,674) | 738,023 |
| Income taxes payable | — | 1,312,365 |
| Net cash provided by operating activities | 10,201,727 | 15,762,534 |
| Cash flows from investing activities: | | |
| Additions to unproved oil and gas properties | (7,821,248) | (162,445) |
| Additions to proved oil and gas properties | (5,653,284) | (4,935,370) |
| Additions to gathering system properties | (30,264) | (82,855) |
| Additions to land, buildings and property and equipment | (47,933) | (1,234) |
| Purchases of short term investments | (32,812,974) | — |
| Proceeds from short term investments | 6,352,473 | — |
| Proceeds from sale of oil and gas properties | 12,498 | 200,000 |
| Net cash used in investing activities | (40,000,732) | (4,981,904) |
| Cash flows from financing activities: | | |
| Buyback of common shares | (3,054,775) | (3,956,403) |
| Exercise of stock options | — | 608,787 |
| Dividends paid | (2,828,602) | (2,969,677) |
| Debt issuance costs | (140,000) | — |
| Net cash used in financing activities | (6,023,377) | (6,317,293) |
| Effect of currency rates on cash, cash equivalents, and restricted cash | (1,471) | (13,748) |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (35,823,853) | 4,449,589 |
| Cash, cash equivalents, and restricted cash, beginning of period | 45,806,947 | 27,065,423 |
| Cash, cash equivalents, and restricted cash, end of period | \$ 9,983,094 | \$ 31,515,012 |
| Supplemental cash flow disclosures: | | |
| Income taxes paid | \$ 1,432,000 | \$ 4,566,000 |
| Interest paid | \$ 80,075 | \$ 33,885 |
| Non-cash investing activities: | | |
| Change in proved properties accrued in accounts payable and accrued liabilities | \$ 72,999 | \$ (1,097,247) |
| Change in gathering system accrued in accounts payable and accrued liabilities | \$ 4,240 | \$ 8,554 |
| Change in share buybacks accrued in accounts payable and accrued liabilities | \$ — | \$ 598,419 |
| Asset retirement obligation asset additions and adjustments | \$ 4,640 | \$ 7,666 |

| | <u>Three months ended June 30,</u> | | <u>Six months ended June 30,</u> | |
|--|------------------------------------|----------------------|----------------------------------|----------------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| Net income | \$ 430,589 | \$ 10,582,988 | \$ 3,960,416 | \$ 16,388,876 |
| Add Back: | | | | |
| Interest (income) expense, net | (398,779) | (21,200) | (861,104) | (21,102) |
| Income tax expense | 246,142 | 4,019,576 | 1,573,064 | 6,201,474 |
| Depreciation, depletion, amortization, and accretion | 1,615,728 | 1,803,739 | 3,388,734 | 3,192,958 |
| Stock based compensation expense | 179,748 | 194,050 | 359,496 | 336,352 |
| Loss (gain) on sale of assets | 1,449,871 | (221,642) | 1,449,871 | (221,642) |
| Loss (gain) on derivative contracts net of cash received or paid on settlement | 641,380 | (940,553) | (63,980) | (1,180,377) |
| Foreign currency translation loss | (5) | (1,071) | (987) | 4,331 |
| Adjusted EBITDA | <u>\$ 4,164,674</u> | <u>\$ 15,415,887</u> | <u>\$ 9,805,510</u> | <u>\$ 24,700,870</u> |

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.