



News Release

EPSILON ENERGY LTD. ANNOUNCES FULL YEAR 2023 RESULTS

Houston, Texas—March 20, 2024 – Epsilon Energy Ltd. (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported its financial results for the fourth quarter and full-year ended December 31, 2023.

Epsilon’s highlights for full-year 2023 include:

- Net revenue interest (NRI) total production of 9.0 Bcfe (24.6 MMcfe per day) for the year ended December 31, 2023.
 - 8.3 Bcf net revenue interest (NRI) natural gas production, a decrease of 12% compared to 2022
 - 65.3 MBbbls net revenue interest (NRI) oil production, an increase of 103% compared to 2022
 - 38.9 MBbbls net revenue interest (NRI) natural gas liquids production, a decrease of 12% compared to 2022
- Average realized price of \$2.34 per Mcfe excluding hedges (\$2.70 per Mcfe including hedges) for the year ended December 31, 2023, a decrease of 62% compared to 2022.
 - Average realized price of \$1.78 per Mcf for natural gas excluding hedges (\$2.17 including hedges), a decrease of 70% compared to 2022
 - Average realized price of \$77.96 per Bbl for oil, a decrease of 21% compared to 2022
 - Average realized price of \$25.29 per Bbl for natural gas liquids, a decrease of 36% compared to 2022
- Total revenues of \$30.7 million for the year ended December 31, 2023, a decrease of 56% compared to 2022.
 - \$14.8 million from natural gas sales, a 74% decrease compared to 2022
 - \$5.1 million from oil sales, an 59% increase compared to 2022
 - \$1.0 million from natural gas liquids sales, a decrease of 43% compared to 2022
 - \$9.8 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$1.4 million), including a \$1.0 million one-time fee adjustment as a result of the operator’s internal audit;
- Adjusted EBITDA of \$18.8 million for the year ended December 31, 2023.

- Free cash flow (FCF) before changes in working capital of \$2.7 million for the year ended December 31, 2023.
- Cash, cash equivalents and short term investments (U.S. Treasuries) were \$32.6 million at December 31, 2023, a decrease of 29% compared to December 31, 2022.
- Returned \$11.7 million to shareholders during the year ended December 31, 2023.
 - \$6.1 million through the repurchase of 1,158,849 shares, representing 5% of shares outstanding at December 31, 2022 at an average price of \$5.20 per share
 - \$5.6 million through the quarterly dividends
 - An additional 248,700 shares were repurchased in January 2024 at \$4.82 per share

Jason Stabell, Epsilon’s Chief Executive Officer, commented, “2023 was a challenging year for natural gas but we ended the year having accomplished our key strategic objectives to diversify our business, continue robust shareholder returns and maintain a rock-solid balance sheet. Here are some further details on these three objectives:

1) We acquired interests and made drill-bit investments in the Permian basin during 2023 and again in the first quarter of 2024, as we recently announced, adding a new core area at an attractive price. The deals diversify our commodity and basin mix and provide a multi-year investment platform of 20-30 gross 2-mile lateral locations. We expect the go-forward Permian development to be largely self-funding and contribute more than 50% of our projected upstream Adjusted EBITDA in 2024 at current forward prices.

2) We continued to return capital to our shareholders through opportunistic buybacks (repurchased over 5% of shares outstanding in 2023 and another 1+% in the first quarter of 2024) and quarterly dividends supported by our fee based midstream cash-flows.

3) We maintained ample liquidity for continued flexibility to make attractive investments and shareholder returns. We exited the year with over \$30 million in cash and short term investments, no debt, and an undrawn revolver of \$35 million. Note our cash position reduced by ~\$15 million this quarter following our recent acquisition announced and closed on February 27th.

In 2024, we expect a significant increase (YoY 2-3x) in our liquids production volumes driven by contribution from our recent acquisition and continued development in the Permian. We remain very encouraged by the results of the 2 gross wells (.5 net) put on production in Q423. The wells are performing more than 25% above our pre-drill estimates. In PA, we expect to see year-over-year declines in gas volumes as initial production on the 7 gross wells recently drilled and completed is delayed until later in the year and we experience normal declines on legacy production.

The Company remains in a strong financial position with the ability to capitalize on attractive opportunities under a variety of market conditions. We believe our stock represents an attractive risk reward with a unique mix of Permian upstream liquids and Marcellus gas assets coupled with

a long-lived fee based midstream business. As we go forward in 2024, our objective remains simple: compound our shareholder's equity through attractive investments and consistent shareholder returns.”

2023 Operating Results

Epsilon's capital expenditures were \$22.0 million for the year ended December 31, 2023, over a 2X increase from 2022. This capital was primarily related to leasehold acquisition and the drilling and completion of 2 gross (0.5 net) wells in Ector Co. Texas, the drilling and completion of 2 gross (0.2 net) wells in Eddy Co. New Mexico, and the drilling of 7 gross (0.7 net) wells in Susquehanna Co. Pennsylvania.

At December 31, 2023, the Company has seven gross (0.7 net) Marcellus wells waiting on completion.

The Texas wells came online in October 2023 and the New Mexico wells came online in May 2023.

The Auburn Gas Gathering System (Epsilon is a 35% owner) gathered and delivered 66.2 Bcf gross natural gas volumes (23.2 Bcf net to Epsilon's interest) during the year, or 181 MMcf/d.

Fourth Quarter 2023 Results

The Company's net revenue interest (NRI) total production was 2.3 Bcfe (24.6 MMcfe/d) for the quarter ended December 31, 2023. Natural gas NRI production was 2.0 Bcf (21.7 MMcfe/d) and oil and natural gas liquids NRI production was 44.7 MBbls (486 Bopd).

Epsilon generated revenues of \$8.6 million for the quarter ended December 31, 2023.

- \$3.5 million from natural gas sales;
- \$2.9 million from oil and natural gas liquids sales
- \$2.2 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$0.3 million);

Adjusted EBITDA of \$5.1 million for the quarter ended December 31, 2023.

Free cash flow (FCF) before changes in working capital of \$4.1 million for the quarter ended December 31, 2023.

Reserves

The Company has received the year-end 2023 third party reserves report completed by the consulting firm DeGolyer & MacNaughton. The table below summarizes the report.

| Epsilon Net Year End 2023 Reserves (MMcfe) | | | | |
|---|-------------------|-------------------|------------------|-------------|
| | <u>12/31/2022</u> | <u>12/31/2023</u> | <u>Change</u> | <u>%</u> |
| Proved Developed | 80,795 | 50,681 | (30,114) | -37% |
| Proved Undeveloped | 13,459 | 19,581 | 6,122 | 45% |
| Total Proved | 94,254 | 70,262 | (23,992) | -25% |
| Probable Developed | 24,943 | 25,375 | 431 | 2% |
| Probable Undeveloped | 264,011 | 136,099 | (127,912) | -48% |
| Total Probable | 288,954 | 161,474 | (127,481) | -44% |
| Total Proved + Probable | 383,210 | 231,736 | (151,473) | -40% |

As shown in the table above, Company Proved reserves decreased 25% year over year. Produced volumes accounted for 35% of the change. Lower SEC natural gas prices (\$1.64 p/Mcf for PA in 2023, \$5.32 p/Mcf for PA in 2022), which are backward looking, accounted for the rest of the declines, partially offset by additions from 2023 development activities. Pricing also drove the declines in Probable reserves.

As the Company does not operate its assets in Pennsylvania, it can have limited visibility on future development plans and timing. We are required to have line of sight on development to qualify undeveloped reserves as Proved. We anticipate reclassifying reserves in PA back to Proved once we have more clarity on development timing.

The acquired Texas properties were early life at year end 2023 and as a result the associated reserves were conservatively estimated. We anticipate adding additional oil-weighted reserves with more production history and incremental development in 2024.

One-Year Share Repurchase Program

The Board of Directors has authorized the repurchase of up to 2,191,320 common shares, representing 10% of the outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$12.0 million, pursuant to a normal course issuer bid. The one-year period will commence on March 27, 2024. The program will end on March 26, 2025 unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination.

The Company believes that the market price of its common shares may not reflect their underlying value and the Board of Directors has authorized this initiative because, in the Board's opinion, the proposed repurchase of common shares constitutes an appropriate use of Epsilon's funds, and the repurchase of its common shares is one way of creating shareholder value.

Repurchases will be made from time to time through the facilities of the NASDAQ Global Market. The price paid for the common shares will be, subject to applicable securities laws, the prevailing market price of such common shares on the NASDAQ Global Market at the time of such purchase.

The Company intends to fund the purchase out of available cash and does not expect to incur debt to fund the share repurchase program.

Earning's Call

The Company will host a conference call to discuss its financial and operational results on Thursday, March 21, 2024 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 Year End 2023 Earnings Conference Call"

A webcast can be viewed at:

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=elcacEsN>. 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 onshore natural gas and oil production and gathering company with assets in Pennsylvania, Texas, New Mexico, and Oklahoma.

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.

The reserves and associated future net revenue information set forth in this news release are estimates only. In general, estimates of oil and natural gas reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as production rates, ultimate reserves recovery, timing and amount of capital expenditures, ability to transport production, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the oil and natural gas reserves attributable to any particular group of properties, as well as the classification of such reserves and estimates of future net revenues associated with such reserves prepared by different engineers (or by the same engineers at different times) may vary. The actual reserves of the Company may be greater or less than those calculated. In addition, the Company's actual production, revenues, development and operating expenditures will vary from estimates thereof and such variations could be material.

Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. There is no assurance that forecast price and cost assumptions will be attained and variances could be material.

Proved reserves are those reserves which are most certain to be recovered. Probable reserves are those additional reserves that are less certain to be recovered than Proved reserves but which, together with Proved reserves, are as likely as not to be recovered. Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (Proved, Probable) to which they are assigned.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation. The estimated future net revenues contained in this news release do not necessarily represent the fair market value of the Company's reserves.

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.
Audited Consolidated Statements of Operations
(All amounts stated in US\$)

| | Year ended December 31, | |
|---|--------------------------------|----------------------|
| | 2023 | 2022 |
| Revenues from contracts with customers: | | |
| Gas, oil, NGL, and condensate revenue | \$ 20,939,221 | \$ 61,877,197 |
| Gas gathering and compression revenue | 9,790,531 | 8,085,512 |
| Total revenue | <u>30,729,752</u> | <u>69,962,709</u> |
| Operating costs and expenses: | | |
| Lease operating expenses | 6,405,281 | 7,128,631 |
| Gathering system operating expenses | 2,459,694 | 2,287,763 |
| Development geological and geophysical expenses | — | 9,545 |
| Depletion, depreciation, amortization, and accretion | 7,685,084 | 6,438,511 |
| Loss (gain) on sale of oil and gas properties | 1,449,871 | (221,642) |
| General and administrative expenses: | | |
| Stock based compensation expense | 1,018,262 | 1,021,026 |
| Other general and administrative expenses | 6,293,234 | 6,325,412 |
| Total operating costs and expenses | <u>25,311,426</u> | <u>22,989,246</u> |
| Operating income | <u>5,418,326</u> | <u>46,973,463</u> |
| Other income (expense): | | |
| Interest income | 1,673,241 | 452,877 |
| Interest expense | (80,379) | (50,782) |
| Gain on derivative contracts | 3,130,055 | 236,077 |
| Other income (expense), net | 4,357 | (99,469) |
| Other income, net | <u>4,727,274</u> | <u>538,703</u> |
| Net income before income tax expense | 10,145,600 | 47,512,166 |
| Income tax expense | <u>3,200,447</u> | <u>12,157,487</u> |
| NET INCOME | \$ 6,945,153 | \$ 35,354,679 |
| Currency translation adjustments | (3,872) | (44,054) |
| Unrealized gain on securities | 1,598 | — |
| NET COMPREHENSIVE INCOME | <u>\$ 6,942,879</u> | <u>\$ 35,310,625</u> |
| Net income per share, basic | \$ 0.31 | \$ 1.52 |
| Net income per share, diluted | \$ 0.31 | \$ 1.51 |
| Weighted average number of shares outstanding, basic | 22,496,772 | 23,319,633 |
| Weighted average number of shares outstanding, diluted | 22,511,647 | 23,406,189 |

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

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| ASSETS | | |
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 13,403,628 | \$ 45,236,584 |
| Accounts receivable | 6,015,448 | 7,201,386 |
| Short term investments | 18,775,106 | — |
| Fair value of derivatives | 1,219,025 | 1,222,090 |
| Prepaid income taxes | 952,301 | 1,140,094 |
| Other current assets | 763,288 | 632,154 |
| Operating lease right-of-use assets | — | 31,383 |
| Total current assets | 41,128,796 | 55,463,691 |
| <i>Non-current assets</i> | | |
| Property and equipment: | | |
| Oil and gas properties, successful efforts method | | |
| Proved properties | 160,263,511 | 148,326,265 |
| Unproved properties | 25,504,873 | 18,169,157 |
| Accumulated depletion, depreciation, amortization and impairment | (113,708,210) | (107,729,293) |
| Total oil and gas properties, net | 72,060,174 | 58,766,129 |
| Gathering system | 42,738,273 | 42,639,001 |
| Accumulated depletion, depreciation, amortization and impairment | (35,539,996) | (34,500,740) |
| Total gathering system, net | 7,198,277 | 8,138,261 |
| Land | 637,764 | 637,764 |
| Buildings and other property and equipment, net | 291,807 | 286,035 |
| Total property and equipment, net | 80,188,022 | 67,828,189 |
| Other assets: | | |
| Operating lease right-of-use assets, long term | 441,987 | — |
| Restricted cash | 470,000 | 570,363 |
| Prepaid drilling costs | 1,813,808 | — |
| Total non-current assets | 82,913,817 | 68,398,552 |
| Total assets | \$ 124,042,613 | \$ 123,862,243 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| <i>Current liabilities</i> | | |
| Accounts payable trade | \$ 3,149,371 | \$ 1,695,353 |
| Gathering fees payable | 1,136,237 | 935,012 |
| Royalties payable | 1,422,898 | 2,223,043 |
| Accrued capital expenditures | 696,761 | 41,694 |
| Accrued compensation | 636,295 | 598,351 |
| Other accrued liabilities | 649,037 | 690,655 |
| Fair value of derivatives | 118,770 | — |
| Operating lease liabilities | 86,473 | 35,299 |
| Total current liabilities | 7,895,842 | 6,219,407 |
| <i>Non-current liabilities</i> | | |
| Asset retirement obligations | 3,502,952 | 2,780,237 |
| Deferred income taxes | 11,553,943 | 10,617,394 |
| Operating lease liabilities, long term | 476,911 | — |
| Total non-current liabilities | 15,533,806 | 13,397,631 |
| Total liabilities | 23,429,648 | 19,617,038 |
| Commitments and contingencies (Note 11) | | |
| <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 22,222,722 shares issued and 22,151,848 shares outstanding at December 31, 2023 and 23,117,144 issued and outstanding at December 31, 2022 | 118,272,565 | 123,904,965 |
| Treasury shares, at cost, 70,874 at December 31, 2023 and 0 at December 31, 2022 | (360,326) | — |
| Additional paid-in capital | 10,874,491 | 9,856,229 |
| Accumulated deficit | (37,946,042) | (39,290,540) |
| Accumulated other comprehensive income | 9,772,277 | 9,774,551 |
| Total shareholders' equity | 100,612,965 | 104,245,205 |
| Total liabilities and shareholders' equity | \$ 124,042,613 | \$ 123,862,243 |

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

| | Year ended December 31, | |
|---|-------------------------|----------------------|
| | 2023 | 2022 |
| Cash flows from operating activities: | | |
| Net income | \$ 6,945,153 | \$ 35,354,679 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depletion, depreciation, amortization, and accretion | 7,685,084 | 6,438,511 |
| Accretion of discount on available for sale securities | (836,528) | — |
| Loss (gain) on sale of oil and gas properties | 1,449,871 | (221,642) |
| Gain on derivative contracts | (3,130,055) | (236,077) |
| Settlement received (paid) on derivative contracts | 3,251,890 | (1,225,837) |
| Settlement of asset retirement obligation | (509,802) | (118,260) |
| Stock-based compensation expense | 1,018,262 | 1,021,026 |
| Deferred income tax expense | 936,549 | 711,954 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,185,938 | (2,604,455) |
| Prepaid income taxes | 187,793 | — |
| Other assets and liabilities | 126,347 | (58,368) |
| Accounts payable, royalties payable and other accrued liabilities | (122,203) | 1,182,348 |
| Income taxes payable | — | (2,238,519) |
| Net cash provided by operating activities | 18,188,299 | 38,005,360 |
| Cash flows from investing activities: | | |
| Additions to unproved oil and gas properties | (8,136,442) | (310,211) |
| Additions to proved oil and gas properties | (10,377,642) | (7,562,502) |
| Additions to gathering system properties | (82,302) | (184,032) |
| Additions to land, buildings and property and equipment | (49,689) | (13,258) |
| Purchases of short term investments - held to maturity | (32,812,974) | — |
| Purchases of short term investments - available for sale | (11,988,982) | — |
| Proceeds from sales and maturities of short term investments | 26,864,976 | — |
| Proceeds from sale of oil and gas properties | 12,498 | 200,000 |
| Prepaid drilling costs | (1,813,808) | — |
| Net cash used in investing activities | (38,384,365) | (7,870,003) |
| Cash flows from financing activities: | | |
| Buyback of common shares | (6,055,601) | (6,234,879) |
| Exercise of stock options | 62,875 | 747,112 |
| Dividends paid | (5,600,655) | (5,862,012) |
| Debt issuance costs | (140,000) | — |
| Net cash used in financing activities | (11,733,381) | (11,349,779) |
| Effect of currency rates on cash, cash equivalents, and restricted cash | (3,872) | (44,054) |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (31,933,319) | 18,741,524 |
| Cash, cash equivalents, and restricted cash, beginning of period | 45,806,947 | 27,065,423 |
| Cash, cash equivalents, and restricted cash, end of period | \$ 13,873,628 | \$ 45,806,947 |
| Supplemental cash flow disclosures: | | |
| Income taxes paid | \$ 1,439,583 | \$ 13,669,000 |
| Interest paid | \$ 97,595 | \$ 68,328 |
| Non-cash investing activities: | | |
| Change in proved properties accrued in accounts payable and accrued liabilities | \$ 1,611,724 | \$ (1,100,041) |
| Change in gathering system accrued in accounts payable and accrued liabilities | \$ 16,969 | \$ (20,118) |
| Asset retirement obligation asset additions and adjustments | \$ 1,190,579 | \$ 12,053 |

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

| | <u>Year ended December 31,</u> | |
|--|--------------------------------|-----------------------------|
| | <u>2023</u> | <u>2022</u> |
| Net income | \$ 6,945,153 | \$ 35,354,679 |
| Add Back: | | |
| Interest (income) expense, net | (1,592,862) | (402,095) |
| Income tax expense | 3,200,447 | 12,157,487 |
| Depreciation, depletion, amortization, and accretion | 7,685,084 | 6,438,511 |
| Stock based compensation expense | 1,018,262 | 1,021,026 |
| Gain (loss) on sale of assets | 1,449,871 | (221,642) |
| Loss (gain) on derivative contracts net of cash received or paid on settlement | 121,835 | (1,461,914) |
| Foreign currency translation loss | (278) | (850) |
| Adjusted EBITDA | <u>\$ 18,827,512</u> | <u>\$ 52,885,202</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.

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

| | Twelve months ended December 31 | |
|--|--|---------------|
| | 2023 | 2022 |
| Net cash provided by operating activities | \$ 18,188,299 | \$ 38,005,360 |
| Less: Net cash used in investing activities (Capital Expenditures) | (18,468,802) | (7,870,003) |
| Free cash flow | \$ (280,503) | \$ 30,135,357 |
| Changes in working capital | 3,006,569 | 4,043,393 |
| Free cash flow before Changes in Working Capital | \$ 2,726,066 | \$ 34,178,750 |

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.