



News Release

EPSILON REPORTS SECOND QUARTER 2024 RESULTS

Houston, Texas–August 13, 2024 – Epsilon Energy Ltd. (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported second quarter 2024 financial and operating results.

Second Quarter 2024 Highlights:

Epsilon - Q2 2024		Q2 2024	Q1 2024	Q2 2023	QoQ %	YoY%
NPI Production						
Gas	MMcf	1,407	1,666	2,118	-16%	-34%
Oil	Mbbl	45	37	14	22%	223%
NGL	Mbbl	19	16	11	19%	69%
Revenues						
Gas	\$M	1,961	2,963	3,007	-34%	-35%
Oil	\$M	3,514	2,715	1,046	29%	236%
NGL	\$M	388	373	245	4%	59%
Midstream ¹	\$M	1,444	1,936	2,202	-25%	-34%
Total	\$M	7,308	7,987	6,500	-9%	12%
Realized Prices²						
Gas	\$/Mcf	1.39	1.78	1.42	-22%	-2%
Oil	\$/Bbl	78.44	74.13	75.38	6%	4%
NGL	\$/Bbl	20.21	23.16	21.55	-13%	-6%
Adj. EBITDA	\$M	3,904	4,595	4,165	-15%	-6%
Cash + STI ³	\$M	9,481	15,447	36,788	-39%	-74%
Capex	\$M	5,709	21,466	12,458	-73%	-54%
1) Net of gathering fee revenue paid by Epsilon						
2) Excludes impact of hedge realizations						
3) Includes restricted cash balance						

- Returned \$1.4 million to shareholders through the quarterly dividend during the quarter.
- Realized gains of \$0.4 million on Henry Hub (HH) and TGP Z4 basis swaps totaling 690,000 MMBTU, and losses of \$0.1 million on WTI CMA swaps totaling 20 MBbls.

Operations Update:

Epsilon's capital expenditures were \$5.7 million for the quarter ended June 30, 2024. This was primarily related to the completion of one gross (0.25 net) well and drilling of one gross (0.25 net) well in Ector Co., Texas.

The Marcellus wells (7 gross) completed in Q1 2024 are not yet turned in line, awaiting better realized natural gas prices. In addition, our operating partner in PA has maintained production curtailments. We estimate that 3.5-4 MMcf per day of NRI production was offline during the quarter.

The Company has six gross (1.5 net) producing wells in Ector Co. Texas. The sixth well was put on production for the last month of the quarter. A seventh well was completed in July and is currently on flowback. Two of the producing wells were offline for 2 weeks during the quarter during completion operations on the sixth well.

Jason Stabell, Epsilon's Chief Executive Officer, commented, "Our Permian assets continue to perform well with strong quarter over quarter increases in oil volumes and revenue, driven by a full quarter of contribution from our first quarter acquisition and one month of production from the sixth well in the Pradera Fuego project. We expect to see additional sequential oil growth in the third quarter with a full quarter of contribution from the sixth well and the seventh well now on flowback and producing over 700 bopd while still cleaning up.

In PA, natural gas volumes and revenues were down quarter over quarter, as expected, due to continued curtailments and the deferred turn in line on the 7 gross (0.7 net) wells completed in the first quarter. Natural gas prices remain weak and the company has fixed price hedges on approximately 50% of current volumes through the end of the year. As previously disclosed, we executed an amended gathering agreement for the Auburn gas gathering system, further bolstering the asset's long-term cash flow potential.

Finally, we continue to pursue additional investments in drill bit focused opportunities that meet our return thresholds.

Overall, our business remains well positioned for continued growth in the Permian coupled with material upside for our Marcellus assets next year in an improved natural gas environment. With our recently expanded and undrawn credit facility, cash-flows, and cash on hand we can comfortably continue to pay our dividend and pursue attractive new projects."

Current Hedge Book:

Hedge Book - as of 8.7.24								
Trade Date	Product	Structure	Ref	Contract Start	Contract End	Price/ Strike	Outstanding	Metric
06/07/24	Natural Gas	Swaps	NYMEX Henry Hub (LD)	01/01/2025	03/31/2025	\$ 3.70	225,000	MMBtu
06/07/24	Natural Gas	Swaps	Tenn Z4 300LBasis	01/01/2025	03/31/2025	\$ (0.80)	225,000	MMBtu
04/30/24	Natural Gas	Swaps	Tenn Z4 300LBasis	01/01/2025	03/31/2025	\$ (0.75)	225,000	MMBtu
04/30/24	Natural Gas	Swaps	NYMEX Henry Hub (LD)	01/01/2025	03/31/2025	\$ 3.54	225,000	MMBtu
03/28/24	Natural Gas	Swaps	NYMEX Henry Hub (LD)	11/01/2024	12/31/2024	\$ 3.15	152,500	MMBtu
03/05/24	Natural Gas	Swaps	Tenn Z4 300LBasis	11/01/2024	12/31/2024	\$ (1.04)	305,000	MMBtu
03/05/24	Natural Gas	Swaps	NYMEX Henry Hub (LD)	11/01/2024	12/31/2024	\$ 3.28	305,000	MMBtu
02/26/24	Crude Oil	Swaps	NYMEX WTI OMA	03/01/2024	03/31/2025	\$ 74.34	39,168	BBL
10/18/23	Natural Gas	Swaps	NYMEX Henry Hub (LD)	04/01/2024	10/31/2024	\$ 3.29	152,500	MMBtu
10/18/23	Natural Gas	Swaps	Tenn Z4 300LBasis	04/01/2024	10/31/2024	\$ (1.20)	152,500	MMBtu
09/29/23	Natural Gas	Swaps	NYMEX Henry Hub (LD)	04/01/2024	10/31/2024	\$ 3.20	305,000	MMBtu
09/29/23	Natural Gas	Swaps	Tenn Z4 300LBasis	04/01/2024	10/31/2024	\$ (1.15)	305,000	MMBtu

Earning's Call:

The Company will host a conference call to discuss its results on Wednesday, August 14, 2024 at 9:30 a.m. Central Time (10:30 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 2024 Earnings Conference Call."

A webcast can be viewed at:

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=wNyRpqMC>. 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.

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Revenues from contracts with customers:				
Gas, oil, NGL, and condensate revenue	\$ 5,863,370	\$ 4,298,072	\$ 11,914,415	\$ 11,267,653
Gas gathering and compression revenue	1,444,448	2,202,064	3,380,146	4,588,759
Total revenue	<u>7,307,818</u>	<u>6,500,136</u>	<u>15,294,561</u>	<u>15,856,412</u>
Operating costs and expenses:				
Lease operating expenses	1,649,867	1,440,521	3,418,329	2,844,800
Gathering system operating expenses	649,967	570,934	1,202,537	1,222,275
Depletion, depreciation, amortization, and accretion	2,048,403	1,615,728	4,428,829	3,388,734
Loss (gain) on sale of oil and gas properties	—	1,449,871	—	1,449,871
General and administrative expenses:				
Stock based compensation expense	313,589	179,748	635,158	359,496
Other general and administrative expenses	1,478,215	1,596,626	3,037,238	3,620,399
Total operating costs and expenses	<u>6,140,041</u>	<u>6,853,428</u>	<u>12,722,091</u>	<u>12,885,575</u>
Operating income (loss)	<u>1,167,777</u>	<u>(353,292)</u>	<u>2,572,470</u>	<u>2,970,837</u>
Other income (expense):				
Interest income	108,943	433,201	375,215	923,963
Interest expense	(8,759)	(34,422)	(17,519)	(62,859)
(Loss) gain on derivative contracts	(94,891)	628,178	(195,617)	1,696,838
Other income, net	101,606	3,066	101,073	4,701
Other income, net	<u>106,899</u>	<u>1,030,023</u>	<u>263,152</u>	<u>2,562,643</u>
Net income before income tax expense	1,274,676	676,731	2,835,622	5,533,480
Income tax expense	459,016	246,142	513,066	1,573,064
NET INCOME	\$ 815,660	\$ 430,589	\$ 2,322,556	\$ 3,960,416
Currency translation adjustments	22,229	1,129	22,593	(1,471)
Unrealized gain (loss) on securities	3,011	(47,006)	(1,598)	(47,006)
NET COMPREHENSIVE INCOME	<u>\$ 840,900</u>	<u>\$ 384,712</u>	<u>\$ 2,343,551</u>	<u>\$ 3,911,939</u>
Net income per share, basic	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.17
Net income per share, diluted	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.17
Weighted average number of shares outstanding, basic	21,921,752	22,749,322	21,957,980	22,869,440
Weighted average number of shares outstanding, diluted	22,029,475	22,783,987	21,987,142	22,904,922

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

	June 30, 2024	December 31, 2023
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,581,484	\$ 13,403,628
Accounts receivable	4,944,664	6,015,448
Short term investments	—	18,775,106
Fair value of derivatives	403,992	1,219,025
Prepaid income taxes	632,531	952,301
Other current assets	414,736	763,288
Total current assets	<u>14,977,407</u>	<u>41,128,796</u>
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	185,238,373	160,263,511
Unproved properties	28,498,028	25,504,873
Accumulated depletion, depreciation, amortization and impairment	(117,604,188)	(113,708,210)
Total oil and gas properties, net	<u>96,132,213</u>	<u>72,060,174</u>
Gathering system	42,854,372	42,738,273
Accumulated depletion, depreciation, amortization and impairment	(35,957,863)	(35,539,996)
Total gathering system, net	<u>6,896,509</u>	<u>7,198,277</u>
Land	637,764	637,764
Buildings and other property and equipment, net	281,444	291,807
Total property and equipment, net	<u>103,947,930</u>	<u>80,188,022</u>
Other assets:		
Operating lease right-of-use assets, long term	392,792	441,987
Restricted cash	900,000	470,000
Prepaid drilling costs	926,827	1,813,808
Total non-current assets	<u>106,167,549</u>	<u>82,913,817</u>
Total assets	<u>\$ 121,144,956</u>	<u>\$ 124,042,613</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 2,386,055	\$ 3,236,871
Gathering fees payable	971,599	1,136,237
Royalties payable	1,196,239	1,422,898
Accrued capital expenditures	108,216	696,761
Accrued compensation	416,037	636,295
Other accrued liabilities	614,231	561,537
Fair value of derivatives	259,896	118,770
Operating lease liabilities	103,846	86,473
Total current liabilities	<u>6,056,119</u>	<u>7,895,842</u>
<i>Non-current liabilities</i>		
Asset retirement obligations	3,528,208	3,502,952
Deferred income taxes	11,499,207	11,553,943
Operating lease liabilities, long term	415,805	476,911
Total non-current liabilities	<u>15,443,220</u>	<u>15,533,806</u>
Total liabilities	<u>21,499,339</u>	<u>23,429,648</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 21,921,850 shares issued and outstanding at June 30, 2024 and 22,222,722 issued and 22,151,848 shares outstanding at December 31, 2023	116,708,531	118,272,565
Treasury shares, at cost, 0 at June 30, 2024 and 70,874 at December 31, 2023	—	(360,326)
Additional paid-in capital	11,509,649	10,874,491
Accumulated deficit	(38,365,835)	(37,946,042)
Accumulated other comprehensive income	9,793,272	9,772,277
Total shareholders' equity	<u>99,645,617</u>	<u>100,612,965</u>
Total liabilities and shareholders' equity	<u>\$ 121,144,956</u>	<u>\$ 124,042,613</u>

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

	Six months ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 2,322,556	\$ 3,960,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	4,428,829	3,388,734
Accretion of discount on available for sale securities	(297,637)	(343,328)
Gain on available for sale securities	—	(47,659)
Loss on sale of oil and gas properties	—	1,449,871
Loss (gain) on derivative contracts	195,617	(1,696,838)
Settlement received on derivative contracts	760,542	1,632,858
Settlement of asset retirement obligation	(87,284)	—
Stock-based compensation expense	635,158	359,496
Deferred income tax (benefit) expense	(54,736)	230,327
Changes in assets and liabilities:		
Accounts receivable	1,070,784	2,846,310
Prepaid income taxes	319,770	—
Other assets and liabilities	354,014	425,789
Accounts payable, royalties payable and other accrued liabilities	(572,099)	(1,910,674)
Income taxes payable	—	(93,575)
Net cash provided by operating activities	9,075,514	10,201,727
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(2,993,155)	(7,821,248)
Additions to proved oil and gas properties	(26,425,017)	(5,653,284)
Additions to gathering system properties	(70,236)	(30,264)
Additions to land, buildings and property and equipment	(13,912)	(47,933)
Purchases of short term investments - held to maturity	—	(32,812,974)
Purchases of short term investments - available for sale	(4,045,785)	—
Proceeds from sales and maturities of short term investments	23,116,930	6,352,473
Proceeds from sale of oil and gas properties	—	12,498
Prepaid drilling costs	886,981	—
Net cash used in investing activities	(9,544,194)	(40,000,732)
Cash flows from financing activities:		
Buyback of common shares	(1,203,708)	(3,054,775)
Dividends paid	(2,742,349)	(2,828,602)
Debt issuance costs	—	(140,000)
Net cash used in financing activities	(3,946,057)	(6,023,377)
Effect of currency rates on cash, cash equivalents, and restricted cash	22,593	(1,471)
Decrease in cash, cash equivalents, and restricted cash	(4,392,144)	(35,823,853)
Cash, cash equivalents, and restricted cash, beginning of period	13,873,628	45,806,947
Cash, cash equivalents, and restricted cash, end of period	\$ 9,481,484	\$ 9,983,094
Supplemental cash flow disclosures:		
Income taxes paid	\$ 131,392	\$ 1,432,000
Interest paid	\$ —	\$ 80,075
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ (1,471,985)	\$ 72,999
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 45,862	\$ 4,240
Asset retirement obligation asset additions and adjustments	\$ 21,831	\$ 4,640

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net income	\$ 815,660	\$ 430,589	\$ 2,322,556	\$ 3,960,416
Add Back:				
Interest income, net	(100,184)	(398,779)	(357,696)	(861,104)
Income tax expense	459,016	246,142	513,066	1,573,064
Depreciation, depletion, amortization, and accretion	2,048,403	1,615,728	4,428,829	3,388,734
Stock based compensation expense	313,589	179,748	635,158	359,496
Gain on sale of assets	—	1,449,871	—	1,449,871
Loss (gain) on derivative contracts net of cash received or paid on settlement	367,148	641,380	956,159	(63,980)
Foreign currency translation loss	—	(5)	570	(987)
Adjusted EBITDA	<u>\$ 3,903,632</u>	<u>\$ 4,164,674</u>	<u>\$ 8,498,642</u>	<u>\$ 9,805,510</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.