



News Release

EPSILON REPORTS FIRST QUARTER 2024 RESULTS

Houston, Texas–May 8, 2024 – Epsilon Energy Ltd. (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported first quarter 2024 financial and operating results.

Epsilon’s highlights for first quarter 2024 include:

- Net revenue interest (NRI) total production of 2.0 Bcfe (21.8 MMcfe per day, 16% liquids) for the quarter ended March 31, 2024, a decrease of 11% compared to the prior quarter.
 - 1.7 Bcf net revenue interest (NRI) natural gas production, a decrease of 16% compared to the prior quarter
 - 44% of the decrease (0.2 Bcf) is attributed to production curtailments in Pennsylvania in response to realized prices
 - 36.6 MBbls net revenue interest (NRI) oil production, an increase of 15% compared to the prior quarter
 - 16.1 MBbls net revenue interest (NRI) natural gas liquids production, an increase of 25% compared to the prior quarter
- Realized average price of \$3.05 per Mcfe excluding hedges (\$3.30 per Mcfe including hedges) for the quarter ended March 31, 2024, an increase of 7% (11% including hedges) compared to the prior quarter (driven by higher liquids share, offset by lower liquids realized pricing).
 - Average realized price of \$1.78 per Mcf for natural gas excluding hedges (\$2.10 including hedges), an increase of 1% (11% including hedges) compared to the prior quarter
 - Average realized price of \$74.13 per Bbl for oil excluding hedges (\$72.86 including hedges), a decrease of 9% compared to the prior quarter
 - Average realized price of \$23.16 per Bbl for natural gas liquids, a decrease of 5% compared to the prior quarter
- Reported total revenues of \$8.0 million for the quarter ended March 31, 2024, a decrease of 7% compared to the prior quarter.
 - \$6.1 million from natural gas, oil, and NGL sales (excluding hedges), a decrease of 6% compared to the prior quarter
 - \$1.9 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), a decrease of 9% compared to the prior quarter (driven by lower throughput volumes in Auburn)

- Reported Adjusted EBITDA of \$4.6 million for the quarter ended March 31, 2024, a decrease of 10% compared to the prior quarter.
- Cash, cash equivalents (including restricted cash), and short term investments totaled \$15.4 million at March 31, 2024, a 53% decrease from the prior quarter driven by the February acquisition and increased capital spending.
- Returned \$2.6 million to shareholders during the quarter ended March 31, 2024.
 - \$1.2 million through the repurchase of 248,700 shares at \$4.82 per share
 - \$1.4 million through the quarterly dividend
 - A new repurchase program for up to 2,191,320 shares was effective on March 27, 2024 with a one year term
- Realized gains of \$0.5 million on Henry Hub (HH) and TGP Z4 basis swaps totaling 525,000 MMBTU, and losses of \$0.05 million on WTI CMA swaps totaling 8 MBbls.

Current Hedge Book:

Hedge Book - as of 05/08/2024									
Trade Date	Product	Structure	Ref	Contract Start	Contract End	Price/Strike	Outstanding	Metric	
4/30/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	1/1/2025	3/31/2025	\$ (0.75)	225,000	MMBtu	
4/30/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	1/1/2025	3/31/2025	\$ 3.54	225,000	MMBtu	
3/28/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	11/1/2024	12/31/2024	\$ 3.15	152,500	MMBtu	
3/5/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	11/1/2024	12/31/2024	\$ (1.04)	305,000	MMBtu	
3/5/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	11/1/2024	12/31/2024	\$ 3.28	305,000	MMBtu	
2/26/2024	Crude Oil	Swaps	NYMEX WTI CMA	3/1/2024	3/31/2025	\$ 74.34	58,023	BBL	
10/18/2023	Natural Gas	Swaps	NYMEX Henry Hub (LD)	4/1/2024	10/31/2024	\$ 3.29	382,500	MMBtu	
10/18/2023	Natural Gas	Swaps	Tenn Z4 300L Basis	4/1/2024	10/31/2024	\$ (1.20)	382,500	MMBtu	
9/29/2023	Natural Gas	Swaps	NYMEX Henry Hub (LD)	4/1/2024	10/31/2024	\$ 3.20	765,000	MMBtu	
9/29/2023	Natural Gas	Swaps	Tenn Z4 300L Basis	4/1/2024	10/31/2024	\$ (1.15)	765,000	MMBtu	

Operations Update:

Epsilon's capital expenditures were \$21.4 million for the quarter ended March 31, 2024. This was primarily related to the Ector Co., Texas acquisition announced on February 27, 2024, the drilling of one gross (0.25 net) well in Ector Co., Texas, and the completion of 7 gross (0.7 net) wells in Susquehanna Co., Pennsylvania.

The recently completed Marcellus wells (7 gross) are not yet turned in line, awaiting better realized natural gas prices. In addition, our operating partner in PA curtailed production in response to low realized gas prices in the first quarter (quantified above). These curtailments continue, and we estimate 4.5 MMcf per day of NRI production is currently offline.

The Company has five producing wells in Ector Co. Texas, effective March 1, following the announced acquisition. A sixth well was recently drilled (in March) and completion operations are underway. A seventh well is currently drilling. The sixth and seventh wells are expected to be on production in late Q2 / early Q3 2024. Two of the producing wells are currently shut-in during the

ongoing completion of the sixth well and we estimate they will be offline for 3-4 weeks during the second quarter of 2024 (estimated 200 BOEPD of NRI production).

Jason Stabell, Epsilon's Chief Executive Officer, commented, "Our Permian business continues to perform well. This summer, we expect to have 7 gross wells on production, where we had only 2 on production until March 1. The exciting potential of this business will become clear with the contribution from our continued development activity over the course of this year.

An over-supplied North American natural gas market has continued to weigh on our realized gas pricing. In PA, we support the actions of our operating partner to defer TILs for wells completed during the quarter and selectively curtail production. We expect continued headwinds for natural gas this year. The good news is that the deferred TILs represent an estimated initial 15 MMcf per day of incremental NRI production ready to come on when pricing improves, representing over a 100% increase to our current production levels (which are curtailed by 4-5 MMcf per day). Our hedge position will act as a partial shock absorber in this interim period, with approximately 50% of our forecasted PA natural gas production hedged at ~\$2.10 per MMBTU (net realized) through the end of the year, roughly 20% above the forward strip.

Lower PA upstream volumes will also impact our midstream cash flows this year, but at current levels we expect them to continue to support our current dividend payout.

Over the last twelve months we have invested approximately \$42 million of our shareholder's capital (~80% Permian / ~20% PA). Of these expenditures, \$29 million either just started to contribute (\$12 million for acquired PDP wells, effective March 1) or is not yet contributing to results (undeveloped leasehold, wells in progress or pending TIL). We will see contributions show up and ramp over the next twelve months. Our Permian investments will continue to meaningfully add oil-weighted volumes and cash flows this year while our PA investments stand ready to initially double our natural gas production when prices improve. Importantly, these activities will provide our shareholders attractive rates of return on the invested capital. All of this has been accomplished while maintaining our dividend, repurchasing shares opportunistically and preserving our debt-free balance sheet."

Earning's Call:

The Company will host a conference call to discuss its results on Thursday, May 9, 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 First Quarter 2024 Earnings Conference Call.”

A webcast can be viewed at:

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=BtayVC7k>. 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.

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 March 31,	
	2024	2023
Revenues from contracts with customers:		
Gas, oil, NGL, and condensate revenue	\$ 6,051,045	\$ 6,969,581
Gas gathering and compression revenue	1,935,698	2,386,695
Total revenue	7,986,743	9,356,276
Operating costs and expenses:		
Lease operating expenses	1,768,462	1,404,279
Gathering system operating expenses	552,570	651,341
Depletion, depreciation, amortization, and accretion	2,380,426	1,773,006
General and administrative expenses:		
Stock based compensation expense	321,569	179,748
Other general and administrative expenses	1,559,023	2,023,773
Total operating costs and expenses	6,582,050	6,032,147
Operating income	1,404,693	3,324,129
Other income (expense):		
Interest income	266,272	490,762
Interest expense	(8,760)	(28,437)
(Loss) gain on derivative contracts	(100,726)	1,068,660
Other income (expense), net	(533)	1,635
Other income, net	156,253	1,532,620
Net income before income tax expense	1,560,946	4,856,749
Income tax expense	54,050	1,326,922
NET INCOME	\$ 1,506,896	\$ 3,529,827
Currency translation adjustments	364	(2,600)
Unrealized loss on securities	(4,609)	—
NET COMPREHENSIVE INCOME	\$ 1,502,651	\$ 3,527,227
Net income per share, basic	\$ 0.07	\$ 0.15
Net income per share, diluted	\$ 0.07	\$ 0.15
Weighted average number of shares outstanding, basic	21,994,207	22,990,893
Weighted average number of shares outstanding, diluted	21,994,207	23,027,684

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

	March 31, 2024	December 31, 2023
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,308,633	\$ 13,403,628
Accounts receivable	5,061,734	6,015,448
Short term investments	12,238,177	18,775,106
Fair value of derivatives	1,347,512	1,219,025
Prepaid income taxes	1,020,702	952,301
Other current assets	619,542	763,288
Total current assets	<u>22,596,300</u>	<u>41,128,796</u>
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	180,452,860	160,263,511
Unproved properties	28,593,071	25,504,873
Accumulated depletion, depreciation, amortization and impairment	<u>(115,782,946)</u>	<u>(113,708,210)</u>
Total oil and gas properties, net	<u>93,262,985</u>	<u>72,060,174</u>
Gathering system	42,757,299	42,738,273
Accumulated depletion, depreciation, amortization and impairment	<u>(35,788,907)</u>	<u>(35,539,996)</u>
Total gathering system, net	<u>6,968,392</u>	<u>7,198,277</u>
Land	637,764	637,764
Buildings and other property and equipment, net	<u>287,524</u>	<u>291,807</u>
Total property and equipment, net	<u>101,156,665</u>	<u>80,188,022</u>
Other assets:		
Operating lease right-of-use assets, long term	417,268	441,987
Restricted cash	900,000	470,000
Prepaid drilling costs	—	1,813,808
Total non-current assets	<u>102,473,933</u>	<u>82,913,817</u>
Total assets	<u>\$ 125,070,233</u>	<u>\$ 124,042,613</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 3,215,137	\$ 3,236,871
Gathering fees payable	667,014	1,136,237
Royalties payable	1,201,478	1,422,898
Accrued capital expenditures	2,706,951	696,761
Accrued compensation	212,892	636,295
Other accrued liabilities	732,593	561,537
Fair value of derivatives	836,268	118,770
Operating lease liabilities	95,170	86,473
Total current liabilities	<u>9,667,503</u>	<u>7,895,842</u>
<i>Non-current liabilities</i>		
Asset retirement obligations	3,562,486	3,502,952
Deferred income taxes	11,530,950	11,553,943
Operating lease liabilities, long term	<u>446,226</u>	<u>476,911</u>
Total non-current liabilities	<u>15,539,662</u>	<u>15,533,806</u>
Total liabilities	<u>25,207,165</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 21,913,202 shares issued and outstanding at March 31, 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 March 31, 2024 and 70,874 at December 31, 2023	—	(360,326)
Additional paid-in capital	11,196,060	10,874,491
Accumulated deficit	(37,809,555)	(37,946,042)
Accumulated other comprehensive income	<u>9,768,032</u>	<u>9,772,277</u>
Total shareholders' equity	<u>99,863,068</u>	<u>100,612,965</u>
Total liabilities and shareholders' equity	<u>\$ 125,070,233</u>	<u>\$ 124,042,613</u>

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

	Three months ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 1,506,896	\$ 3,529,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	2,380,426	1,773,006
Accretion of discount on available for sale securities	(216,180)	—
Loss (gain) on derivative contracts	100,726	(1,068,660)
Settlement received on derivative contracts	488,285	363,300
Settlement of asset retirement obligation	(1,653)	—
Stock-based compensation expense	321,569	179,748
Deferred income tax expense (benefit)	(22,993)	(12,108)
Changes in assets and liabilities:		
Accounts receivable	953,714	2,396,066
Prepaid income taxes	(68,401)	—
Other assets and liabilities	146,477	143,646
Accounts payable, royalties payable and other accrued liabilities	(1,897,438)	(1,062,898)
Income taxes payable	—	1,336,225
Net cash provided by operating activities	3,691,428	7,578,152
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(3,088,198)	(106,069)
Additions to proved oil and gas properties	(17,226,449)	(621,132)
Additions to gathering system properties	(22,650)	(12,423)
Additions to land, buildings and property and equipment	(7,681)	(42,703)
Purchases of short term investments - available for sale	(4,045,785)	(30,138,743)
Proceeds from sales and maturities of short term investments	10,794,285	—
Prepaid drilling costs	1,813,808	—
Net cash used in investing activities	(11,782,670)	(30,921,070)
Cash flows from financing activities:		
Buyback of common shares	(1,203,708)	(1,367,425)
Dividends paid	(1,370,409)	(1,412,455)
Net cash used in financing activities	(2,574,117)	(2,779,880)
Effect of currency rates on cash, cash equivalents, and restricted cash	364	(2,600)
(Decrease) increase in cash, cash equivalents, and restricted cash	(10,664,995)	(26,125,398)
Cash, cash equivalents, and restricted cash, beginning of period	13,873,628	45,806,947
Cash, cash equivalents, and restricted cash, end of period	\$ 3,208,633	\$ 19,681,549
Supplemental cash flow disclosures:		
Interest paid	\$ —	\$ 17,216
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 2,946,528	\$ 375,242
Change in gathering system accrued in accounts payable and accrued liabilities	\$ (3,624)	\$ 9,201
Asset retirement obligation asset additions and adjustments	\$ 16,372	\$ 736

	Three months ended March 31,	
	2024	2023
Net income	\$ 1,506,896	\$ 3,529,827
Add Back:		
Interest (income) expense, net	(257,512)	(462,325)
Income tax expense	54,050	1,326,922
Depreciation, depletion, amortization, and accretion	2,380,426	1,773,006
Stock based compensation expense	321,569	179,748
Gain (loss) on sale of assets	—	—
Loss (gain) on derivative contracts net of cash received or paid on settlement	589,011	(705,360)
Foreign currency translation loss	570	(983)
Adjusted EBITDA	<u>\$ 4,595,010</u>	<u>\$ 5,640,835</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.