



News Release

EPSILON REPORTS THIRD QUARTER 2024 RESULTS

Houston, Texas–November 6, 2024 – Epsilon Energy Ltd. (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported third quarter 2024 financial and operating results.

Third Quarter 2024 Highlights:

Epsilon - Q3 2024						
		Q3 2024	Q2 2024	Q3 2023	QoQ %	YoY %
NRI Production						
Gas	MMcf	1,304	1,407	1,848	-7%	-29%
Oil	Mbbl	53	45	13	19%	317%
NGL	Mbbl	17	19	9	-11%	99%
Revenues						
Gas	\$M	1,904	1,961	2,089	-3%	-9%
Oil	\$M	3,965	3,514	925	13%	329%
NGL	\$M	335	388	228	-14%	47%
Midstream ¹	\$M	1,084	1,444	3,069	-25%	-65%
Realized Prices²						
Gas	\$/Mcf	1.46	1.39	1.13	5%	29%
Oil	\$/Bbl	74.27	78.44	72.27	-5%	3%
NGL	\$/Bbl	19.56	20.21	26.50	-3%	-26%
Adj. EBITDA	\$M	3,744	3,904	3,925	-4%	-5%
Cash + STI ³	\$M	8,775	9,481	31,864	-7%	-72%
Capex	\$M	3,908	5,709	5,284	-32%	-26%
1) Does not include elimination entry for fees paid by Epsilon						
2) Excludes impact of hedge realizations						
3) Includes restricted cash balance						

- Returned \$2.0 million to shareholders through the quarterly dividend and the repurchase of 125,000 shares during the quarter.
- Realized gains of \$0.5 million on Henry Hub (HH) and TGP Z4 basis swaps totaling 690,000 MMBTU, and losses of \$0.02 million on WTI CMA swaps totaling 17 MBbls.

Operations Update:

Epsilon's capital expenditures were \$3.9 million for the quarter ended September 30, 2024. These were primarily related to the completion of one gross (0.25 net) well in Ector Co., Texas and the drilling of two gross (1 net) wells in Alberta, Canada.

The Marcellus wells (7 gross) completed in Q1 2024 were not turned in line during the quarter. Three of the seven wells were put on flowback during the last week of October and are now producing approximately 60 MMcf per day gross. Our operating partner in PA has maintained production curtailments. We estimate that 3-4 MMcf per day of NRI production was offline during the quarter.

Jason Stabell, Epsilon's Chief Executive Officer, commented, "We delivered our fourth consecutive quarter of liquids volume, revenue and cash flow growth from our Permian assets continuing to fill the gap while we wait for an improved natural gas pricing environment. In Pennsylvania, we are expecting increased production and cash flow in the fourth quarter and next year aided by improving natural gas fundamentals. Our diversified and growing asset portfolio is well positioned to produce volume and cash flow growth in 2025.

The recently announced entry into Alberta, Canada provides an attractive new area to deploy capital starting in in the fourth quarter. We will provide an update on our 2025 Canadian investment plans once finalized with our operating partner.

Finally, our diversified assets, strong balance sheet and liquidity continue to differentiate us in the small cap energy space."

Current Hedge Book:

Hedge Book								
Trade Date	Product	Structure	Ref	Contract Start	Contract End	Price/ Strike	Outstanding	Metric
10/07/2024	Crude Oil	Swaps	NYMEX WTI QMA	04/01/2025	06/30/2025	\$ 72.00	7,500	BBL
10/02/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	04/01/2025	10/31/2025	\$ 3.23	535,000	MMBtu
10/02/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	04/01/2025	10/31/2025	\$ (1.04)	535,000	MMBtu
08/28/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	01/01/2025	03/31/2025	\$ 3.18	225,000	MMBtu
08/28/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	01/01/2025	03/31/2025	\$ (0.68)	225,000	MMBtu
06/07/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	01/01/2025	03/31/2025	\$ 3.70	225,000	MMBtu
06/07/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	01/01/2025	03/31/2025	\$ (0.80)	225,000	MMBtu
04/30/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	01/01/2025	03/31/2025	\$ 3.54	225,000	MMBtu
04/30/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	01/01/2025	03/31/2025	\$ (0.75)	225,000	MMBtu
03/28/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	11/01/2024	12/31/2024	\$ 3.15	77,500	MMBtu
03/05/2024	Natural Gas	Swaps	NYMEX Henry Hub (LD)	11/01/2024	12/31/2024	\$ 3.28	155,000	MMBtu
03/05/2024	Natural Gas	Swaps	Tenn Z4 300L Basis	11/01/2024	12/31/2024	\$ (1.04)	155,000	MMBtu
02/26/2024	Crude Oil	Swaps	NYMEX WTI QMA	03/01/2024	03/31/2025	\$ 74.34	22,898	BBL

Earning's Call:

The Company will host a conference call to discuss its results on Thursday, November 7, 2024 at 2:00 p.m. Central Time (3:00 p.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 Third Quarter 2024 Earnings Conference Call."

A webcast can be viewed at :

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=S0pmngFY>. 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, Alberta CA, 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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Revenues from contracts with customers:				
Gas, oil, NGL, and condensate revenue	\$ 6,203,953	\$ 3,241,531	\$ 18,118,368	\$ 14,509,184
Gas gathering and compression revenue	1,083,988	3,068,996	4,464,134	7,657,755
Total revenue	<u>7,287,941</u>	<u>6,310,527</u>	<u>22,582,502</u>	<u>22,166,939</u>
Operating costs and expenses:				
Lease operating expenses	2,099,501	1,559,957	5,517,830	4,404,757
Gathering system operating expenses	490,325	631,725	1,692,862	1,854,000
Depletion, depreciation, amortization, and accretion	2,698,812	1,392,032	7,127,641	4,780,766
Loss on sale of oil and gas properties	—	—	—	1,449,871
General and administrative expenses:				
Stock based compensation expense	309,109	439,653	944,267	799,149
Other general and administrative expenses	1,449,576	1,540,358	4,486,814	5,160,757
Total operating costs and expenses	<u>7,047,323</u>	<u>5,563,725</u>	<u>19,769,414</u>	<u>18,449,300</u>
Operating income	<u>240,618</u>	<u>746,802</u>	<u>2,813,088</u>	<u>3,717,639</u>
Other income (expense):				
Interest income	96,220	384,732	471,435	1,308,695
Interest expense	(53,125)	(8,760)	(70,644)	(71,619)
Gain (loss) on derivative contracts	440,712	(24,303)	245,095	1,672,535
Other income, net	9,994	468	111,067	5,169
Other income, net	<u>493,801</u>	<u>352,137</u>	<u>756,953</u>	<u>2,914,780</u>
Net income before income tax expense	734,419	1,098,939	3,570,041	6,632,419
Income tax expense	<u>368,398</u>	<u>710,164</u>	<u>881,464</u>	<u>2,283,228</u>
NET INCOME	\$ 366,021	\$ 388,775	\$ 2,688,577	\$ 4,349,191
Currency translation adjustments	39,845	(846)	62,438	(2,317)
Unrealized gain (loss) on securities	—	24,641	(1,598)	(22,365)
NET COMPREHENSIVE INCOME	<u>\$ 405,866</u>	<u>\$ 412,570</u>	<u>\$ 2,749,417</u>	<u>\$ 4,324,509</u>
Net income per share, basic	\$ 0.02	\$ 0.02	\$ 0.12	\$ 0.19
Net income per share, diluted	\$ 0.02	\$ 0.02	\$ 0.12	\$ 0.19
Weighted average number of shares outstanding, basic	21,948,519	22,118,984	21,954,803	22,616,539
Weighted average number of shares outstanding, diluted	22,155,292	22,178,686	22,000,881	22,631,550

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

	September 30, 2024	December 31, 2023
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,304,971	\$ 13,403,628
Accounts receivable	4,470,017	6,015,448
Short term investments	—	18,775,106
Fair value of derivatives	150,121	1,219,025
Prepaid income taxes	1,020,179	952,301
Other current assets	865,841	763,288
Total current assets	14,811,129	41,128,796
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	190,162,954	160,263,511
Unproved properties	28,292,321	25,504,873
Accumulated depletion, depreciation, amortization and impairment	(119,981,434)	(113,708,210)
Total oil and gas properties, net	98,473,841	72,060,174
Gathering system	42,988,092	42,738,273
Accumulated depletion, depreciation, amortization and impairment	(36,221,366)	(35,539,996)
Total gathering system, net	6,766,726	7,198,277
Land	637,764	637,764
Buildings and other property and equipment, net	269,133	291,807
Total property and equipment, net	106,147,464	80,188,022
Other assets:		
Operating lease right-of-use assets, long term	368,564	441,987
Restricted cash	470,000	470,000
Prepaid drilling costs	—	1,813,808
Total non-current assets	106,986,028	82,913,817
Total assets	\$ 121,797,157	\$ 124,042,613
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 2,220,394	\$ 3,236,871
Gathering fees payable	844,163	1,136,237
Royalties payable	1,149,330	1,422,898
Accrued capital expenditures	1,758,133	696,761
Accrued compensation	589,620	636,295
Other accrued liabilities	599,949	561,537
Fair value of derivatives	50,702	118,770
Operating lease liabilities	112,502	86,473
Total current liabilities	7,324,793	7,895,842
<i>Non-current liabilities</i>		
Asset retirement obligations	3,590,017	3,502,952
Deferred income taxes	12,138,030	11,553,943
Operating lease liabilities, long term	385,653	476,911
Total non-current liabilities	16,113,700	15,533,806
Total liabilities	23,438,493	23,429,648
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 21,973,687 shares issued and 21,848,687 shares outstanding at September 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, 125,000 at September 30, 2024 and 70,874 at December 31, 2023	(627,500)	(360,326)
Additional paid-in capital	11,818,758	10,874,491
Accumulated deficit	(39,374,242)	(37,946,042)
Accumulated other comprehensive income	9,833,117	9,772,277
Total shareholders' equity	98,358,664	100,612,965
Total liabilities and shareholders' equity	\$ 121,797,157	\$ 124,042,613

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

	Nine months ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 2,688,577	\$ 4,349,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	7,127,641	4,780,766
Accretion of discount on available for sale securities	(297,637)	(574,341)
Gain on available for sale securities	—	(60,494)
Loss on sale of oil and gas properties	—	1,449,871
Gain on derivative contracts	(245,095)	(1,672,535)
Settlement received on derivative contracts	1,245,931	2,979,128
Settlement of asset retirement obligation	(88,992)	(3,482)
Stock-based compensation expense	944,267	799,149
Deferred income tax (benefit) expense	584,088	1,188,059
Changes in assets and liabilities:		
Accounts receivable	1,545,431	3,195,108
Prepaid income taxes	(67,878)	(814,694)
Other assets and liabilities	(94,360)	(67,008)
Accounts payable, royalties payable and other accrued liabilities	(1,520,707)	(1,191,558)
Net cash provided by operating activities	11,821,266	14,357,160
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(2,787,448)	(8,017,412)
Additions to proved oil and gas properties	(29,041,344)	(7,860,073)
Additions to gathering system properties	(76,625)	(52,069)
Additions to land, buildings and property and equipment	(13,912)	(49,689)
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	14,554,976
Proceeds from sale of oil and gas properties	—	12,498
Prepaid drilling costs	1,813,808	(2,891,250)
Net cash used in investing activities	(11,034,376)	(37,115,993)
Cash flows from financing activities:		
Buyback of common shares	(1,831,208)	(5,695,275)
Dividends paid	(4,116,777)	(4,217,471)
Debt issuance costs	—	(140,000)
Net cash used in financing activities	(5,947,985)	(10,052,746)
Effect of currency rates on cash, cash equivalents, and restricted cash	62,438	(2,317)
Decrease in cash, cash equivalents, and restricted cash	(5,098,657)	(32,813,896)
Cash, cash equivalents, and restricted cash, beginning of period	13,873,628	45,806,947
Cash, cash equivalents, and restricted cash, end of period	\$ 8,774,971	\$ 12,993,051
Supplemental cash flow disclosures:		
Income taxes paid	\$ 4,000	\$ 1,442,304
Interest paid	\$ 16,832	\$ 88,835
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 818,504	\$ 41,947
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 173,193	\$ 3,441
Asset retirement obligation asset additions and adjustments	\$ 39,597	\$ 4,640

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net income	\$ 366,021	\$ 388,775	\$ 2,688,577	\$ 4,349,191
Add Back:				
Interest income, net	(43,095)	(375,972)	(400,791)	(1,237,076)
Income tax expense	368,398	710,164	881,464	2,283,228
Depreciation, depletion, amortization, and accretion	2,698,812	1,392,032	7,127,641	4,780,766
Stock based compensation expense	309,109	439,653	944,267	799,149
Loss on sale of assets	—	—	—	1,449,871
Loss on derivative contracts net of cash received or paid on settlement	44,677	1,370,573	1,000,836	1,306,593
Foreign currency translation loss	—	(98)	570	(1,086)
Adjusted EBITDA	\$ 3,743,922	\$ 3,925,127	\$ 12,242,564	\$ 13,730,636

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.