UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2024

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-38770

EPSILON ENERGY LTD.

(Exact name of registrant as specified in its charter)

Alberta, Canada	**98-1476367**
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

500 Dallas Street, Suite 1250
Houston, Texas 77002
(281) 670-0002
(Address of principal executive offices including zip code and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading Symbol**	**Name of each exchange on which registered**
Common Shares, no par value	EPSN	NASDAQ Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒ Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of November 6, 2024, there were 21,857,326 Common Shares outstanding.

Table of Contents

Contents

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report constitute forward-looking statements. The use of any of the words ‘‘anticipate,’’ ‘‘continue,’’ ‘‘estimate,’’ ‘‘expect,’’ ‘‘may,’’ ‘‘will,’’ ‘‘project,’’ ‘‘should,’’ ‘‘believe,’’ and similar expressions and statements relating to matters that are not historical facts constitute ‘‘forward looking information’’ within the meaning of applicable securities laws. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated. Such 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 report should not be unduly relied upon. These statements are made only as of the date of this report. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to natural gas and oil production rates, commodity prices for crude oil or natural gas, supply and demand for natural gas and oil; the estimated quantity of natural gas and oil reserves, including reserve life; future development and production costs, and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2023, and those described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider carefully the statements under Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2023. Our Annual Report on Form 10-K for the year ended December 31, 2023 is available on our website at www.epsilonenergyltd.com.

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EPSILON ENERGY LTD.
Unaudited Condensed Consolidated Balance Sheets

	September 30, 2024	December 31, 2023
ASSETS		
Current assets		
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
Non-current assets		
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		
Current liabilities		
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
Non-current liabilities		
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)		
Shareholders' equity		
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

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements

EPSILON ENERGY LTD.
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income

	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	7,287,941	6,310,527	22,582,502	22,166,939
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	7,047,323	5,563,725	19,769,414	18,449,300
Operating income	240,618	746,802	2,813,088	3,717,639
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	493,801	352,137	756,953	2,914,780
Net income before income tax expense	734,419	1,098,939	3,570,041	6,632,419
Income tax expense	368,398	710,164	881,464	2,283,228
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	$ 405,866	$ 412,570	$ 2,749,417	$ 4,324,509
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

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements

Table of Contents

EPSILON ENERGY LTD.
Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

	Common Shares Issued		Treasury Shares					
	Shares	Amount	Shares	Amount	Additional paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
Balance at January 1, 2024	22,222,722	$118,272,565	(70,874)	$ (360,326)	$10,874,491	$9,772,277	$(37,946,042)	$100,612,965
Net income	—	—	—	—	—	—	1,506,896	1,506,896
Dividends paid	—	—	—	—	—	—	(1,370,409)	(1,370,409)
Stock-based compensation expense	—	—	—	—	321,569	—	—	321,569
Buyback of common shares	—	—	(248,700)	(1,203,708)	—	—	—	(1,203,708)
Retirement of treasury shares	(319,574)	(1,564,034)	319,574	1,564,034	—	—	—	—
Vesting of shares of restricted stock	10,054	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(4,245)	—	(4,245)
Balance at March 31, 2024	21,913,202	$116,708,531	—	$ —	$11,196,060	$9,768,032	$(37,809,555)	$ 99,863,068
Net income	—	—	—	—	—	—	815,660	815,660
Dividends paid	—	—	—	—	—	—	(1,371,940)	(1,371,940)
Stock-based compensation expense	—	—	—	—	313,589	—	—	313,589
Vesting of shares of restricted stock	8,648	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	25,240	—	25,240
Balance at June 30, 2024	21,921,850	$116,708,531	—	$ —	11,509,649	$9,793,272	$(38,365,835)	$ 99,645,617
Net income	—	—	—	—	—	—	366,021	366,021
Dividends paid	—	—	—	—	—	—	(1,374,428)	(1,374,428)
Stock-based compensation expense	—	—	—	—	309,109	—	—	309,109
Buyback of common shares	—	—	(125,000)	(627,500)	—	—	—	(627,500)
Vesting of shares of restricted stock	51,837	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	39,845	—	39,845
Balance at September 30, 2024	21,973,687	$116,708,531	(125,000)	$ (627,500)	11,818,758	$9,833,117	$(39,374,242)	$ 98,358,664

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements

	Common Shares Issued Shares	Amount	Treasury Shares Shares	Amount	Additional paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
Balance at January 1, 2023	23,117,144	$123,904,965	—	$ —	$ 9,856,229	$9,774,551	$(39,290,540)	$104,245,205
Net income	—	—	—	—	—	—	3,529,827	3,529,827
Dividends paid	—	—	—	—	—	—	(1,412,455)	(1,412,455)
Stock-based compensation expense	—	—	—	—	179,748	—	—	179,748
Buyback of common shares	—	—	(237,920)	(1,367,425)	—	—	—	(1,367,425)
Retirement of treasury shares	(190,700)	(1,115,306)	190,700	1,115,306	—	—	—	—
Other comprehensive income	—	—	—	—	—	(2,600)	—	(2,600)
Balance at March 31, 2023	22,926,444	$122,789,659	(47,220)	$ (252,119)	$10,035,977	$9,771,951	$(37,173,168)	$105,172,300
Net income	—	—	—	—	—	—	430,589	430,589
Dividends paid	—	—	—	—	—	—	(1,416,147)	(1,416,147)
Stock-based compensation expense	—	—	—	—	179,748	—	—	179,748
Buyback of common shares	—	—	(325,055)	(1,687,350)	—	—	—	(1,687,350)
Retirement of treasury shares	(277,154)	(1,441,655)	277,154	1,441,655	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(45,877)	—	(45,877)
Balance at June 30, 2023	22,649,290	$121,348,004	(95,121)	$ (497,814)	$10,215,725	$9,726,074	$(38,158,726)	$102,633,263
Net income	—	—	—	—	—	—	388,775	388,775
Dividends paid	—	—	—	—	—	—	(1,388,869)	(1,388,869)
Stock-based compensation expense	—	—	—	—	439,653	—	—	439,653
Buyback of common shares	—	—	(525,000)	(2,640,500)	—	—	—	(2,640,500)
Retirement of treasury shares	(620,121)	(3,138,314)	620,121	3,138,314	—	—	—	—
Vesting of shares of restricted stock	97,631	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	23,795	—	23,795
Balance at September 30, 2023	22,126,800	$118,209,690	—	$ —	$10,655,378	$9,749,869	$(39,158,820)	$ 99,456,117

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements

EPSILON ENERGY LTD.
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30, 2024	Nine months ended September 30, 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

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements

Epsilon Energy Ltd.
Notes to the Unaudited Condensed Consolidated Financial Statements

1. Description of Business

Epsilon Energy Ltd. (the "Company" or "Epsilon" or "we") was incorporated under the laws of the Province of Alberta, Canada on March 14, 2005, pursuant to the ABCA. Epsilon is a North American on-shore focused independent natural gas and oil company engaged in the acquisition, development, gathering and production of natural gas and oil reserves. On February 14, 2019, Epsilon's registration statement on Form 10 was declared effective by the United States Securities and Exchange Commission and on February 19, 2019, we began trading in the United States on the NASDAQ Global Market under the trading symbol "EPSN."

2. Basis of Preparation

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the appropriate rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. All adjustments which are, in the opinion of management, necessary for a fair statement of the financial position and results of operations for the interim periods presented have been included. The interim financial information and notes hereto should be read in conjunction with the Company's consolidated financial statements as of and for the year ended December 31, 2023. The results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

Principles of Consolidation

The Company's unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Epsilon Energy USA, Inc. and its wholly owned subsidiaries, Epsilon Midstream, LLC, Dewey Energy GP, LLC, Dewey Energy Holdings, LLC, Epsilon Operating, LLC, and Altolisa Holdings, LLC. With regard to the gathering system, in which Epsilon owns an undivided interest in the asset, proportionate consolidation accounting is used. All inter-company transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved natural gas and oil reserves and related cash flow estimates used in impairment tests of natural gas and oil, and gathering system properties, asset retirement obligations, accrued natural gas and oil revenues and operating expenses, accrued gathering system revenues and operating expenses, as well as the valuation of commodity derivative instruments. Actual results could differ from those estimates.

Recently Issued Accounting Standards

The Company, an emerging growth company ("EGC"), has elected to take advantage of the benefits of the extended transition period provided for in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards which allows the Company to defer adoption of certain accounting standards until those standards would otherwise apply to private companies.

In June 2016 the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance removes all recognition thresholds and requires companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the

Company expects to collect over the instrument's contractual life. Epsilon adopted ASU 2016-13 as of January 1, 2023. There was no impact from the adoption of this ASU.

In 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which, for a limited period of time, adds ASC 848 to the Codification providing entities with certain practical expedients and exceptions from applying modification accounting if certain criteria are met. The amendments are designed to reduce operational challenges that entities will face in applying modification accounting to all contracts that will be revised due to reference rate reform. The guidance in ASC 848 was triggered by the pending discontinuation of certain benchmark reference rates and, in some cases, their replacement by new rates that are more observable or transaction-based and, therefore, less susceptible to manipulation, than certain interest-rate benchmark reference rates commonly used today, including the London Interbank Offered Rate (LIBOR). This process of reference rate reform will require entities to modify certain contracts by removing the discontinued rates and including new rates. Epsilon adopted ASU 2020-04 as of January 1, 2023. There was no impact from the adoption of this ASU.

In July 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-03 to amend various SEC paragraphs in the Accounting Standards Codification ("ASC") to primarily reflect the issuance of SEC Staff Accounting Bulletin No. 120. ASU No. 2023-03, "Presentation of Financial Statements (Topic 205), Income Statement - Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation - Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120 ("SAB 120"), SEC Staff Announcement at the March 24, 2022 Emerging Issues Task Force ("EITF") Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 - General Revision of Regulation S-X: Income or Loss Applicable to Common Stock." ASU 2023-03 amends the ASC for SEC updates pursuant to SEC Staff Accounting Bulletin No. 120; SEC Staff Announcement at the March 24, 2022 EITF Meeting; and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 – General Revision of Regulation S-X; Income or Loss Applicable to Common Stock. SAB 120 provides guidance on the measurement and disclosure of share-based awards shortly before announcing material nonpublic information. These updates were immediately effective and did not have any impact on our condensed consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative, to amend certain disclosure and presentation requirements.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This ASU required disclosure of incremental segment information, primarily through enhanced disclosures about significant segment expenses and amounts for each reportable segment on an annual and interim basis. This guidance is effective for fiscal years beginning after December 15, 2023 and interim periods with fiscal years beginning after December 15, 2024. The Company is currently assessing the potential effects of this standard.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires public entities, on an annual basis, to disclose disaggregated information about a reporting entity's effective tax rate reconciliation, using both percentages and reporting currency amounts for specific standardized categories, as well as disclosure of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently assessing the potential effects of this standard.

In March 2024, the FASB issued ASU No. 2024-01, Compensation – Stock Compensation (Topic 718): Scope Applications of Profits Interest and Similar Awards ("ASU 2024-01"). The amendments in ASU 2024-01 improves its overall clarity and operability without changing the guidance and adding illustrative examples to determine whether profits interest award should be accounted for in accordance with Topic 718. The Company does not anticipate that these updates, once adopted, will have a material effect.

In March 2024, the FASB issued ASU No. 2024-02, Codification Improvements – Amendments to Remove References to the Concept Statements ("ASU 2024-02"). The amendments in ASU 2024-02 removes references to various FASB Concept Statements in the Accounting Standard Codifications to draw a distinction between authoritative and non-authoritative literature. The Company does not anticipate that these updates, once adopted, will have a material effect.

3. Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include cash on hand and short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash consists of amounts deposited to back bonds or letters of credit for potential well liabilities. The Company presents restricted cash with cash and cash equivalents in the Consolidated Statements of Cash Flows.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the Consolidated Balance Sheets to the total of the amounts in the Consolidated Statements of Cash Flows as of September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
Cash and cash equivalents	$ 8,304,971	$ 13,403,628
Restricted cash included in other assets	470,000	470,000
Cash, cash equivalents, and restricted cash in the statement of cash flows	$ 8,774,971	$ 13,873,628

4. Short Term Investments

Short term investments are highly liquid investments with original maturities between three and twelve months. The Company's short term investments consist of US Treasury Bills. These investments are classified as available-for-sale. Available-for-sale short term investments are reported at fair value in the Consolidated Balance Sheets. Unrealized gains and losses are excluded from earnings and are reported in accumulated other comprehensive income in the Consolidated Statements of Operations and Comprehensive Income.

The following table summarizes the available-for-sale short term investments as of September 30, 2024 and December 31, 2023.

	September 30, 2024			December 31, 2023		
	Amortized Cost	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Fair Value
U.S. Treasury Bills	$ —	$ —	$ —	$ 18,773,508	$ 1,598	$ 18,775,106

During the nine months ended September 30, 2024, the Company sold securities with a carrying amount of $14,989,595 for total proceeds of $15,336,930. The realized gains on these sales were $347,335. An additional $7,780,000 of securities reached maturity with total realized gains of $234,248. The realized gains are included in other income in the consolidated Statements of Operations and Comprehensive Income. During the three months ended September 30, 2024, the Company did not acquire or sell any securities.

5. Property and Equipment

The following table summarizes the Company's property and equipment as of September 30, 2024 and December 31, 2023:

	September 30, 2024	December 31, 2023
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

Asset Acquisitions

During the nine months ended September 30, 2024, Epsilon acquired assets that included the following:

- a 25% working interest in three producing wells in Ector County, Texas for $12.1 million.
- a 25% working interest in 3,620 gross undeveloped acres in Ector County, Texas for $2.6 million.
- a 50% working interest in 14,243 gross undeveloped acres in Alberta, Canada for $1.0 million.

Management determined that substantially all the fair value of the assets acquired was concentrated in a group of similar identifiable assets. Based on this determination, the acquisitions were accounted for as asset acquisitions.

During the nine months ended September 30, 2023, Epsilon acquired assets that included the following:

- a 10% interest in two wellbores located in Eddy County, New Mexico for $2.1 million.
- a 25% working interest in 1,297 gross acres in Ector County, Texas including the drilling of one well for $3.7 million and a commitment for the completion of that well for $1.6 million.
- a 25% working interest in 11,067 gross acres in Ector County, Texas for $6.3 million.

Property Impairment

We perform a quantitative impairment test whenever events or changes in circumstances indicate that an asset group's carrying amount may not be recoverable, over proved properties using the published NYMEX forward prices, basis differentials, timing, methods and other assumptions consistent with historical periods. When indicators of impairment are present, GAAP requires that the Company first compare expected future undiscounted cash flows by asset group to their respective carrying values. If the carrying amount exceeds the estimated undiscounted future cash flows, a reduction of the carrying amount of the properties to their estimated fair values is required. Additionally, if an exploratory well is determined not to have found proved reserves, the costs incurred, net of any salvage value, should be charged to expense.

During the three and nine months ended September 30, 2024 and 2023, no impairment was recorded.

6. Revolving Line of Credit

The Company closed a senior secured reserve based revolving credit facility on June 28, 2023, with Frost Bank as issuing bank and sole lender. The current commitment and borrowing base is $45 million (redetermined on June 25, 2024), supported by the Company's upstream assets and subject to semi-annual redeterminations with a maturity date of the earlier of June 28, 2027 or the date that the commitments are terminated. Interest will be charged at the Daily Simple SOFR rate plus a margin of 3.25%. The facility is secured by the assets of the Company's Epsilon Energy USA subsidiary (Borrower) and guaranteed by the Company and the other wholly owned subsidiaries. There are currently no borrowings under the facility.

Under the terms of the facility, the Company must adhere to the following financial covenants:

- Current ratio of 1.0 to 1.0 (current assets / current liabilities)
- Leverage ratio of less than 2.5 to 1.0 (total debt / income adjusted for interest, taxes and non-cash amounts)

Additionally, if the Leverage ratio is greater than 1.0 to 1.0, or the borrowing base utilization is greater than 50%, the Company is required to hedge 50% of the anticipated production from PDP reserves for a rolling 24-month period.

We were in compliance with the financial covenants of the agreement as of September 30, 2024.

	Balance at September 30, 2024	Balance at December 31, 2023	Current Borrowing Base	Interest Rate
Revolving line of credit	$ —	$ —	$ 45,000,000	SOFR + 3.25%

7. Shareholders' Equity

(a) Authorized shares

The Company is authorized to issue an unlimited number of Common Shares with no par value and an unlimited number of Preferred Shares with no par value.

(b) Purchases of Equity Shares

Normal Course Issuer Bid

On March 20, 2024, the Board of Directors authorized a new share repurchase program of up to 2,191,320 common shares, representing 10% of the outstanding common shares of the Company at such time, for an aggregate purchase price of not more than US $12.0 million. The program is pursuant to a normal course issuer bid and will be conducted in accordance with Rule 10b-18 under the Exchange Act. The program commenced on March 27, 2024 and will end on March 26, 2025, unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination.

During the nine months ended September 30, 2024, 125,000 shares have been repurchased at a price of $5.00 per share (excluding commissions) under the new program. These shares are currently held in treasury and will be retired during the fourth quarter of 2024.

The previous share repurchase program commenced on March 27, 2023 and ended on March 26, 2024. During the year ended December 31, 2023, we repurchased 968,149 common shares at an average price of $5.08 per share (excluding commissions) under the previous plan.

During the nine months ended September 30, 2024, we repurchased and retired 248,700 shares at a price of $4.82 per share (excluding commissions) under the previous plan.

The following table contains activity relating to our acquisition of equity securities during the nine months ended September 30, 2024:

	Total number of shares purchased	Average price paid per share	Maximum number of shares remaining to be purchased under the program
Beginning of normal-course issuer bid, March 27, 2023 [(1)]			1,324,495
January 2024	248,700	$ 4.82	
Total as of March 26, 2024	248,700	$ 4.82	1,075,795
Beginning of normal-course issuer bid, March 27, 2024 [(2)]			2,191,320
September 2024	125,000	$ 5.00	
Total as of September 30, 2024	125,000	$ 5.00	2,066,320

(1) Epsilon repurchased these shares under its 2023-2024 share repurchase program that commenced on March 27, 2023 and terminated on March 26, 2024, as described above.

(2) Epsilon repurchased these shares under its 2024-2025 share repurchase program that commenced on March 27, 2024 and terminates on March 26, 2025 as described above.

(c) Equity Incentive Plan

Epsilon's board of directors (the "Board") adopted the 2020 Equity Incentive Plan (the "2020 Plan") on July 22, 2020, and Epsilon's shareholders approved the 2020 Plan at Epsilon's 2020 Annual General and Special Meeting of Shareholders, which occurred on September 1, 2020 (the "Meeting").

The 2020 Plan provides for incentive compensation in the form of stock options, stock appreciation rights, restricted stock and stock units, performance shares and units, other stock-based awards and cash-based awards. Under the 2020 Plan, Epsilon will be authorized to issue up to 2,000,000 Common Shares.

Restricted Stock Awards

For the nine months ended September 30, 2024, 63,980 restricted stock units with a weighted average price at the grant date of $5.08 were awarded to the Company's board of directors. For the year ended December 31, 2023, 358,546 restricted stock units with a weighted average price at the grant date of $5.42 were awarded to the Company's management, employees, and board of directors. These units vest over a three-year period, with an equal number of common shares being issued per period on the anniversary of the award resolution. The vesting of the units (and corresponding issuance of shares) is contingent on the individuals' continued employment or service. The Company determined the fair value of the granted restricted stock units based on the market price of the common shares of the Company on the date of grant.

The following table summarizes restricted stock unit activity for the nine months ended September 30, 2024, and the year ended December 31, 2023:

	Nine months ended September 30, 2024		Year ended December 31, 2023	
	Number of Restricted Shares Outstanding	Weighted Average Remaining Life (years)	Number of Restricted Shares Outstanding	Weighted Average Remaining Life (years)
Balance non-vested Restricted Stock at beginning of period	491,536	1.74	298,210	1.74
Granted	63,980	1.25	358,546	1.90
Vested	(70,539)	—	(165,220)	—
Balance non-vested Restricted Stock at end of period	484,977	1.17	491,536	1.74

Stock compensation expense for the granted restricted stock units is recognized over the vesting period. Stock compensation expense recognized during the three and nine months ended September 30, 2024 was $309,109 and $944,267, respectively (for the three and nine months ended September 30, 2023 was $424,969 and $755,097, respectively).

At September 30, 2024, the Company had unrecognized stock-based compensation related to the restricted stock units of $2,032,610 to be recognized over a weighted average period of 1.13 years (at December 31, 2023: $2,651,858 over 1.42 years).

Performance Share Unit Awards ("PSU")

For the three and nine months ended September 30, 2024, there were no outstanding PSUs. For the year ended December 31, 2023, a total of 15,833 common shares vested and were issued.

The following table summarizes PSUs for the nine months ended September 30, 2024 and the year ended December 31, 2023:

	Nine months ended September 30, 2024		Year ended December 31, 2023	
	Number of Performance Shares Outstanding	Weighted Average Remaining Life (years)	Number of Performance Shares Outstanding	Weighted Average Remaining Life (years)
Balance non-vested PSUs at beginning of period	—	—	15,833	1.00
Vested	—	—	(15,833)	—
Balance non-vested PSUs at end of period	—	—	—	—

Stock compensation expense for the granted PSUs is recognized over the vesting period. Stock compensation expense recognized during the nine months ended September 30, 2024 related to PSUs was $0 (for the three and nine months ended September 30, 2023 related to PSUs was $14,684 and $44,052, respectively).

At September 30, 2024 and December 31, 2023, the Company had no unrecognized stock-based compensation related to PSUs.

Stock Options

As of September 30, 2024, the Company had no outstanding stock options. During the nine months ended September 30, 2024 and the year ended December 31, 2023, the Company awarded no stock options.

The following table summarizes stock option activity for the nine months ended September 30, 2024 and the year ended December 31, 2023:

	Nine months ended September 30, 2024		Year ended December 31, 2023	
Exercise price in US$	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price [(1)]
Balance at beginning of period	57,500	$ 5.03	70,000	$ 5.03
Exercised	—	$ —	(12,500)	$ 5.03
Expired	(57,500)	$ —	—	$ —
Balance at period-end	—	$ —	57,500	$ 5.03
Exercisable at period-end	—	$ —	57,500	$ 5.03

At September 30, 2024, the Company had unrecognized stock-based compensation, related to these options, of nil (at December 31, 2023: nil). The aggregate intrinsic value at September 30, 2024 was nil (at December 31, 2023: $5,500).

(d) Dividends

On March 1, 2024, May 30, 2024 and August 27, 2024, the Board declared quarterly a dividend of $ 0.0625 per common share (annualized $0.25 per common share) totaling in aggregate an amount of approximately $ 4.1 million that has been paid for the nine months ended September 30, 2024.

8. Revenue Recognition

Revenues are comprised of sales of natural gas, oil and NGLs, along with the revenue generated from the Company's ownership interest in the gas gathering system in the Auburn field in Northeastern Pennsylvania.

Overall, product sales revenue generally is recorded in the month when contractual delivery obligations are satisfied, which occurs when control is transferred to the Company's customers at delivery points based on contractual terms and conditions. In addition, gathering and compression revenue generally is recorded in the month when contractual service obligations are satisfied, which occurs as control of those services is transferred to the Company's customers. Gathering System revenues derived from Epsilon's production, which have been eliminated from total gathering system revenues ("elimination entry"), amounted to $0.3 million and $0.8 million, respectively, for the three and nine months ended September 30, 2024 ($0.3 million and $1.0 million, respectively, for the three and nine months ended September 30, 2023).

The following table details revenue for the three and nine months ended September 30, 2024 and 2023.

	Three months ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating revenue				
Natural gas	$ 1,903,946	$ 2,088,745	$ 6,828,155	$ 11,351,618
Natural gas liquids	335,271	228,012	1,096,678	669,295
Oil and condensate	3,964,736	924,774	10,193,535	2,488,271
Gathering and compression fees (1)	1,083,988	3,068,996	4,464,134	7,657,755
Total operating revenue	$ 7,287,941	$ 6,310,527	$ 22,582,502	$ 22,166,939

(1) Net of the elimination entry

Product Sales Revenue

The Company enters into contracts with third party purchasers to sell its natural gas, oil, NGLs and condensate production. Under these product sales arrangements, the sale of each unit of product represents a distinct performance obligation. Product sales revenue is recognized at the point in time that control of the product transfers to the purchaser based on contractual terms which reflect prevailing commodity market prices. To the extent that marketing costs are incurred by the Company prior to the transfer of control of the product, those costs are included in lease operating expenses on the Company's consolidated statements of operations.

Settlement statements for product sales, and the related cash consideration, are generally received from the purchaser within 30 days. As a result, the Company must estimate the amount of production delivered to the customer and the consideration that will ultimately be received for sale of the natural gas, oil, NGLs, or condensate. Estimated revenue due to the Company is recorded within the receivables line item on the accompanying consolidated balance sheets until payment is received.

Gas Gathering and Compression Revenue

The Company also provides natural gas gathering and compression services through its ownership interest in the gas gathering system in the Auburn field. For the provision of gas gathering and compression services, the Company collects its share of the gathering and compression fees per unit of gas serviced and recognizes gathering revenue over time using an output method based on units of gas gathered.

The settlement statement from the operator of the Auburn GGS is received two months after gathering and compression has occurred. As a result, the Company must estimate the amount of production that was gathered and compressed within the system. Estimated revenue due to the Company is recorded within the receivables line item on the accompanying consolidated balance sheets until payment is received.

	September 30, 2024	December 31, 2023	December 31, 2022
Accounts receivable			
Natural gas and oil sales	$ 3,563,893	$ 4,327,886	$ 5,696,419
Joint interest billing	—	17,476	20,454
Gathering and compression fees	750,776	1,543,239	1,483,956
Commodity contract	155,348	72,075	—
Interest	—	54,772	557
Total accounts receivable	$ 4,470,017	$ 6,015,448	$ 7,201,386

9. Income Taxes

Income tax provisions for the three and nine months ended September 30, 2024 and 2023 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Current:				
Federal	$ (198,619)	$ (105,913)	$ 268,691	$ 940,873
State	(71,807)	(141,655)	28,685	154,296
Total current income tax expense	(270,426)	(247,568)	297,376	1,095,169
Deferred:				
Federal	565,137	762,495	919,522	1,140,543
State	73,687	195,237	(335,434)	47,516
Total deferred tax expense	638,824	957,732	584,088	1,188,059
Income tax expense	$ 368,398	$ 710,164	$ 881,464	$ 2,283,228

The Company files federal income tax returns in the United States and Canada, and various returns in state and local jurisdictions.

The Company believes it has appropriate support for the income tax positions taken and to be taken on our tax returns and that the accruals for tax liabilities are adequate for all open years based on our assessment of various factors including past experience and interpretations of tax law applied to the facts of each matter. The Company's tax returns are open to audit under the statute of limitations for the years ending December 31, 2020 through December 31, 2023. To the extent we utilize net operating losses generated in earlier years, such earlier years may also be subject to audit.

Starting in 2023, distributions of Epsilon Energy USA Inc. earnings to Epsilon Energy Ltd. incur a 5% U.S. dividend withholding tax, provided the Company is eligible for benefits under the U.S. / Canada income treaty.

Our effective tax rate will typically differ from the statutory federal rate primarily as a result of state income taxes and the valuation allowance against the Canadian net operating loss. The effective tax rate for the nine months ended September 30, 2024 was higher than the statutory federal rate as a result of state income taxes partially offset by the valuation allowance against the Canadian net operating loss.

10. Commitments and Contingencies

The Company enters into commitments for capital expenditures in advance of the expenditures being made. As of September 30, 2024, the Company had no unpaid capital expenditures.

11. Leases

Under ASC 842, Leases, the Company recognized an operating lease related to its corporate office as of September 30, 2024 and December 31, 2023 as summarized in the following table:

	September 30, 2024	December 31, 2023
Asset		
Operating lease right-of-use assets, long term	$ 368,564	$ 441,987
Total operating lease right-of-use assets	$ 368,564	$ 441,987
Liabilities		
Operating lease liabilities	$ 112,502	$ 86,473
Operating lease liabilities, long term	385,653	476,911
Total operating lease liabilities	$ 498,155	$ 563,384
Operating lease costs	$ 177,212	$ 144,490
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 176,347	$ 27,010
Right-of-use assets obtained in exchange for new operating lease liabilities	$ —	$ 535,149
Weighted average remaining lease term (years) - operating lease	2.65	3.00
Weighted average discount rate (annualized) - operating lease	8.25%	8.25%

On March 1, 2023, the Company commenced a new office lease with a 70 month lease term and future lease payments estimated to be approximately $0.85 million. There are no other pending leases, and no lease arrangements in which the Company is the lessor. Lease expense for operating leases was $0.18 million and $0.14 million for the nine months ended September 30, 2024 and for the year ended December 31, 2023, respectively. This lease expense is presented in other general and administrative expenses in the consolidated statements of operations and comprehensive income.

Future minimum lease payments as of September 30, 2024 are as follows:

	Operating Leases
2024	$ 33,687
2025	173,550
2026	177,021
2027	180,492
2028	183,963
Total minimum lease payments	748,713
Less: imputed interest	(250,558)
Present value of future minimum lease payments	498,155
Less: current obligations under leases	(112,502)
Long-term lease obligations	$ 385,653

12. Net Income Per Share

Basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed based upon the weighted-average number of common shares outstanding during the period plus the assumed issuance of common shares for all potentially dilutive securities.

The net income used in the calculation of basic and diluted net income per share is as follows:

	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

In calculating the net income per share, basic and diluted, the following weighted-average shares were used:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Basic weighted-average number of shares outstanding	21,948,519	22,118,984	21,954,803	22,616,539
Dilutive stock options	—	6,786	—	5,865
Unvested time-based restricted shares	206,773	41,037	46,078	—
Unvested performance-based restricted shares	—	11,879	—	9,146
Diluted weighted-average shares outstanding	22,155,292	22,178,686	22,000,881	22,631,550

The Company excluded the following shares from the diluted EPS because their inclusion would have been anti-dilutive.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Anti-dilutive options	—	63,214	—	64,135
Anti-dilutive unvested time-based restricted shares	408,816	355,788	478,005	327,300
Anti-dilutive unvested performance-based restricted shares	—	3,954	—	6,687
Total Anti-dilutive shares	408,816	422,956	478,005	398,122

13. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive management. Segment performance is evaluated based on operating income (loss) as shown in the table below. Interest income and expense, and income taxes are managed separately on a group basis.

The Company's reportable segments are as follows:

a. The Upstream segment activities include acquisition, development and production of oil, natural gas, and other liquid reserves on properties within North America;
b. The Gas Gathering segment partners with two other companies to operate a natural gas gathering system; and
c. The Corporate segment activities include corporate listing and governance functions of the Company.

Segment activity for the nine months ended September 30, 2024 and 2023 is as follows:

	Upstream	Gas Gathering	Corporate	Elimination	Consolidated
As of and for the nine months ended September 30, 2024					
Operating revenue					
Natural gas	$ 6,828,155	$ —	$ —	$ —	$ 6,828,155
Natural gas liquids	1,096,678	—	—	—	1,096,678
Oil and condensate	10,193,535	—	—	—	10,193,535
Gathering and compression fees	—	5,306,759	—	(842,625)	4,464,134
Total operating revenue [1]	18,118,368	5,306,759	—	(842,625)	22,582,502
Operating costs					
Operating costs	6,360,455	1,692,862	5,431,081	(842,625)	12,641,773
Depletion, depreciation, amortization and accretion	6,440,741	686,900	—	—	7,127,641
Operating income (loss)	5,317,172	2,926,997	(5,431,081)	—	2,813,088
Other income (expense)					
Interest income	—	—	471,435	—	471,435
Interest expense	(35,117)	—	(35,527)	—	(70,644)
Gain on derivative contracts	245,095	—	—	—	245,095
Other income (expense)	111,637	—	(570)	—	111,067
Other income, net	321,615	—	435,338	—	756,953
Net income (loss) before income tax expense	$ 5,638,787	$ 2,926,997	$ (4,995,743)	$ —	$ 3,570,041
Segment assets					
Current assets, net	$ —	$ —	$ 15,281,129	$ —	$ 15,281,129
Proved properties	70,181,520	—	—	—	70,181,520
Unproved properties	28,292,321	—	—	—	28,292,321
Gathering system	—	6,766,726	—	—	6,766,726
Other property and equipment	906,897	—	—	—	906,897
Operating lease right-of-use asset	—	—	368,564	—	368,564
Total segment assets	$ 99,380,738	$ 6,766,726	$ 15,649,693	$ —	$ 121,797,157
Capital expenditures [2]	$ 32,661,208	$ 249,818	$ —	$ —	$ 32,911,026
As of and for the nine months ended September 30, 2023					
Operating revenue					
Natural gas	$ 11,351,618	$ —	$ —	$ —	$ 11,351,618
Natural gas liquids	669,295	—	—	—	669,295
Oil and condensate	2,488,271	—	—	—	2,488,271
Gathering and compression fees	—	8,694,987	—	(1,037,232)	7,657,755
Total operating revenue [1]	14,509,184	8,694,987	—	(1,037,232)	22,166,939
Operating costs					
Operating costs	6,891,860	1,854,030	5,959,876	(1,037,232)	13,668,534
Depletion, depreciation, amortization and accretion	4,034,760	746,006	—	—	4,780,766
Operating income (loss)	3,582,564	6,094,951	(5,959,876)	—	3,717,639
Other income (expense)					
Interest income	—	—	1,308,695	—	1,308,695
Interest expense	(71,619)	—	—	—	(71,619)
Loss on derivative contracts	1,672,535	—	—	—	1,672,535
Other income	4,083	—	1,086	—	5,169
Other income, net	1,604,999	—	1,309,781	—	2,914,780
Net income (loss) before income tax expense	$ 5,187,563	$ 6,094,951	$ (4,650,095)	$ —	$ 6,632,419
Segment assets					
Current assets, net	$ —	$ —	$ 38,786,814	$ —	$ 38,786,814
Proved properties	43,047,938	—	—	—	43,047,938
Unproved properties	26,185,843	—	—	—	26,185,843
Gathering system	—	7,452,917	—	—	7,452,917
Other property and equipment	3,832,225	—	—	—	3,832,225
Operating lease right-of-use asset	—	—	468,833	—	468,833
Total segment assets	$ 73,066,006	7,452,917	39,255,647	—	119,774,570
Capital expenditures [2]	$ 15,969,121	55,510	—	—	16,024,631

(1) Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the nine months ended September 30, 2024 and 2023 have been eliminated upon consolidation. For the nine months ended September 30, 2024, Epsilon sold natural gas to 30 unique customers. The two customers over 10% comprised 18% and 11% of total revenue. For the nine months ended September 30, 2023, Epsilon sold natural gas to 34 unique customers. The one customer over 10% comprised 20% of total revenue.

(2) Capital expenditures for the Upstream segment consist primarily of the acquisition of properties, and the drilling and completing of wells while Gas Gathering consists of expenditures relating to the expansion, completion, and maintenance of the gathering and compression facility.

Segment activity for the three months ended September 30, 2024 and 2023 is as follows:

	Upstream	Gas Gathering	Corporate	Elimination	Consolidated
For the three months ended September 30, 2024					
Operating revenue					
Natural gas	$ 1,903,946	$ —	$ —	$ —	$ 1,903,946
Natural gas liquids	335,271	—	—	—	335,271
Oil and condensate	3,964,736	—	—	—	3,964,736
Gathering and compression fees	—	1,334,706	—	(250,718)	1,083,988
Total operating revenue (1)	6,203,953	1,334,706	—	(250,718)	7,287,941
Operating costs					
Operating costs	2,350,220	490,324	1,758,685	(250,718)	4,348,511
Depletion, depreciation, amortization and accretion	2,433,421	265,391	—	—	2,698,812
Operating income (loss)	1,420,312	578,991	(1,758,685)	—	240,618
Other income (expense)					
Interest income	—	—	96,220	—	96,220
Interest expense	(17,598)	—	(35,527)	—	(53,125)
Loss on derivative contracts	440,712	—	—	—	440,712
Other income	9,994	—	—	—	9,994
Other income, net	433,108	—	60,693	—	493,801
Net income (loss) before income tax expense	$ 1,853,420	$ 578,991	$ (1,697,992)	$ —	$ 734,419
Capital expenditures (2)	$ 4,701,109	$ 133,720	$ —	$ —	$ 4,834,829
For the three months ended September 30, 2023					
Operating revenue					
Natural gas	$ 2,088,745	$ —	$ —	$ —	$ 2,088,745
Natural gas liquids	228,012	—	—	—	228,012
Oil and condensate	924,774	—	—	—	924,774
Gathering and compression fees	—	3,366,370	—	(297,374)	3,068,996
Total operating revenue (1)	3,241,531	3,366,370	—	(297,374)	6,310,527
Operating costs					
Operating costs	1,857,331	631,725	1,980,011	(297,374)	4,171,693
Depletion, depreciation, amortization and accretion	1,175,402	216,630	—	—	1,392,032
Operating (loss) income	208,798	2,518,015	(1,980,011)	—	746,802
Other income (expense)					
Interest income	—	—	384,732	—	384,732
Interest expense	(8,760)	—	—	—	(8,760)
Loss on derivative contracts	(24,303)	—	—	—	(24,303)
Other income	369	—	99	—	468
Other (expense) income, net	(32,694)	—	384,831	—	352,137
Net income (loss) before income tax expense	$ 176,104	$ 2,518,015	$ (1,595,180)	$ —	$ 1,098,939
Capital expenditures (2)	$ 2,373,657	$ 21,006	$ —	$ —	$ 2,394,663

(1) Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the three months ended September 30, 2024 and 2023 have been eliminated upon consolidation. For the three months ended September 30, 2024, Epsilon sold natural gas to 22 unique customers. The three customers over 10% comprised 34%, 14%,

and 11% of total revenue. For the three months ended September 30, 2023, Epsilon sold natural gas to 28 unique customers. The two customers over 10% comprised 36% and 24% of total revenue.

(2) Capital expenditures for the Upstream segment consist primarily of the acquisition of properties, and the drilling and completing of wells while Gas Gathering consists of expenditures relating to the expansion, completion, and maintenance of the gathering and compression facility.

14. Commodity Risk Management Activities

Commodity Price Risks

Epsilon engages in price risk management activities from time to time. These activities are intended to manage Epsilon's exposure to fluctuations in commodity prices for natural gas and oil by securing derivative contracts for a portion of expected sales volumes.

Inherent in the Company's fixed price contracts, are certain business risks, including market risk and credit risk. Market risk is the risk that the price of oil and natural gas will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company's counterparty to a contract. The Company does not currently require collateral from any of its counterparties nor do its counterparties currently require collateral from the Company.

The Company enters into certain commodity derivative instruments to mitigate commodity price risk associated with a portion of its future natural gas and oil production and related cash flows. The natural gas and oil revenues and cash flows are affected by changes in commodity product prices, which are volatile and cannot be accurately predicted. The objective for holding these commodity derivatives is to protect the operating revenues and cash flows related to a portion of the future natural gas and oil sales from the risk of significant declines in commodity prices, which helps ensure the Company's ability to fund the capital budget.

Epsilon has historically elected not to designate any of its financial commodity derivative contracts as accounting hedges and, accordingly, accounts for these financial commodity derivative contracts using the mark-to-market accounting method. Under this accounting method, changes in the fair value of outstanding financial instruments are recognized as gains or losses in the period of change and are recorded as *gain (loss) on derivative contracts* on the condensed consolidated statements of operations and comprehensive income (loss). The related cash flow impact is reflected in cash flows from operating activities. During the three and nine months ended September 30, 2024, Epsilon recognized gains on commodity derivative contracts of $440,712 and $245,095, respectively. This amount included cash received on settlements on these contracts of $485,389 and $1,245,931, respectively. For the three and nine months ended September 30, 2023, Epsilon recognized (losses) gains on commodity derivative contracts of ($24,303) and $1,672,535, respectively. This amount included cash received on settlements on these contracts of $1,346,270 and $2,979,128, respectively.

Commodity Derivative Contracts

At September 30, 2024, the Company had outstanding natural gas NYMEX Henry Hub ("HH") swaps totaling 1.13 Bcf, natural gas Tennessee Z4 basis swaps totaling 0.98 Bcf, and crude oil NYMEX WTI CMA swaps totaling 28 MBbls.

	Fair Value of Derivative Assets	
	September 30, 2024	December 31, 2023
Current		
NYMEX Henry Hub swap	$ 164,940	$ 1,353,667
Tennessee Z4 basis swap	—	112,719
Crude Oil NYMEX WTI CMA	193,249	—
	$ 358,189	$ 1,466,386

Epsilon Energy Ltd.
Notes to the Unaudited Condensed Consolidated Financial Statements

	Fair Value of Derivative Liabilities	
	September 30, 2024	December 31, 2023
Current		
NYMEX Henry Hub swap	$ (85,258)	$ —
Tennessee Z4 Basis swap	(173,512)	(366,131)
	$ (258,770)	$ (366,131)
Net Fair Value of Derivatives	$ 99,419	$ 1,100,255

The following table presents the changes in the fair value of Epsilon's commodity derivatives for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Fair value of asset, beginning of the period	$ 144,096	$ 1,286,070	$ 1,100,255	$ 1,222,090
Gain (loss) on derivative contracts included in earnings	440,712	(24,303)	245,095	1,672,535
Settlement of commodity derivative contracts	(485,389)	(1,346,270)	(1,245,931)	(2,979,128)
Fair value of asset (liability), end of the period	$ 99,419	$ (84,503)	$ 99,419	$ (84,503)

15. Asset Retirement Obligations

Asset retirement obligations are estimated by management based on Epsilon's net ownership interest in all wells and the gathering system, estimated costs to reclaim and abandon such assets and the estimated timing of the costs to be incurred in future periods, and the forecast risk free cost of capital. Epsilon has estimated the value of its total asset retirement obligations to be $3.6 million as of September 30, 2024 ($ 3.5 million at December 31, 2023). Each year we review, and to the extent necessary, revise our asset retirement obligations estimates in accordance with recent activity and current service costs.

The following tables summarize the changes in asset retirement obligations for the periods indicated:

	Nine Months Ended September 30, 2024	Year ended December 31, 2023
Balance beginning of period	$ 3,502,952	$ 2,780,237
Liabilities acquired	32,902	12,437
Liabilities disposed of	—	(46,961)
Wells plugged and abandoned	(88,992)	(509,802)
Change in estimates	6,695	1,178,142
Accretion	136,460	88,899
Balance end of period	$ 3,590,017	$ 3,502,952

16. Fair Value Measurements

The methodologies used to determine the fair value of our financial assets and liabilities at September 30, 2024 were the same as those used at December 31, 2023.

Cash and cash equivalents, restricted cash, accounts receivable, and accounts payable are carried at cost, which approximates their fair value because of the short-term maturity of these instruments. The Company's revolving line of credit has a recorded value that approximates its fair value since its variable interest rate is tied to current market rates and the applicable margins represent market rates. The revolving line of credit is classified within Level 2 of the fair value hierarchy.

Commodity derivative instruments consist of NYMEX HH swap and Tennessee Z4 basis swap contracts for natural gas, and NYMEX WTI CMA swap contracts for crude oil. The Company's derivative contracts are valued based on a marked to market approach. These assumptions are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace, and are therefore designated as Level 2 within the valuation hierarchy. The Company utilizes its counterparties' valuations to assess the reasonableness of its own valuations.

	September 30, 2024				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
Assets					
Derivative contracts	$ —	$ 358,189	$ —	$ (208,068)	$ 150,121
Cash equivalents	$ 297,205	$ —	$ —	$ —	$ 297,205
Liabilities					
Derivative contracts	$ —	$ 258,770	$ —	$ (208,068)	$ 50,702

	December 31, 2023				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
Assets					
Derivative contracts	$ —	$ 1,219,025	$ —	$ —	$ 1,219,025
Cash equivalents	$ 195,669	$ —	$ —	$ —	$ 195,669
Short term investments	$ 18,775,106	$ —	$ —	$ —	$ 18,775,106
Liabilities					
Derivative contracts	$ —	$ 247,361	$ —	$ (366,131)	$ (118,770)

17. Current Expected Credit Loss

Under ASU 326, Financial Instruments – Credit Losses, estimated losses on financial assets are provided through an allowance for credit losses. The majority of our financial assets are held in cash and cash equivalents. We also have accounts receivable which are primarily from purchasers of oil and natural gas, counterparties to our financial instruments, and revenues earned for compression and gathering services. Our oil, gas, and natural gas liquids accounts receivables are generally collected within 30 days after the end of the month. Compression and gathering receivables are generally collected within 60 days after the end of the month. We assess collectability through various procedures, including review of our trade receivable balances by counterparty, assessing economic events and conditions, our historical experience with counterparties, the counterparty's financial condition and the amount and age of past due accounts. As of September 30, 2024 and December 31, 2023, we determined that our allowance for credit loss was nil.

18. Subsequent Events

In October 2024, Epsilon formed a joint venture with a private operator covering lands in the Western Canadian Sedimentary Basin in Alberta, Canada. Epsilon will earn a 25% working interest across approximately 160,000 gross acres after fulfilling a carried interest commitment of $7.3 million before December 1, 2025.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in the understanding of trends and significant changes in our results of operations and the financial condition of Epsilon Energy Ltd. and its subsidiaries for the periods presented. The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto presented in this report, including the unaudited condensed consolidated financial statements as of September 30, 2024 and 2023 and for the nine months then ended together with accompanying notes, as well as our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023. The following discussion contains “forward-looking statements” that reflect our future plans, estimates, beliefs, and expected performance. Actual results and the timing of events may differ materially from those contained in these forward- looking statements due to a number of factors. See “Part II. Item 1A. Risk Factors” and “Forward-Looking Statements.”

Overview

Epsilon Energy Ltd. (the “Company”) is a North American onshore focused independent natural gas and oil company engaged in the acquisition, development, gathering and production of natural gas and oil reserves. Our primary areas of operations are the Marcellus shale section of the Appalachian basin in Pennsylvania, the Permian Basin in Texas and New Mexico, and the NW Anadarko basin in Oklahoma.

At September 30, 2024 we held leasehold rights to 23,630 net acres. We have natural gas production from our non-operated wells in Pennsylvania, and oil, natural gas liquids, and natural gas production from our non-operated wells in Texas, New Mexico, Oklahoma, and Alberta, Canada.

At December 31, 2023 our total estimated net proved reserves were 65,916 MMcf of natural gas, 383,174 Bbls of NGLs, and 341,286 Bbls of oil and condensate.

In Pennsylvania, the Company owns a 35% interest in the 45-mile Auburn Gas Gathering System (“Auburn GGS") which is operated by a subsidiary of Williams Partners, LP.

Our common shares trade on the NASDAQ Global Market under the ticker symbol “EPSN.”

Business Strategy

We are committed to disciplined capital allocation including shareholder returns in the form of dividends and share buybacks. We plan to maintain a strong balance sheet and liquidity position to allow us to opportunistically invest in both our existing project areas and potential new projects.

Historically, our investments have been focused on our position in the Marcellus unconventional reservoir in Pennsylvania (“PA”). Our PA assets are supported by our 35% ownership in the Auburn GGS and we have a substantial remaining drillable location inventory within our existing leaseholds.

More recently, our investments have been focused in the Permian Basin in Texas and the Western Canadian Sedimentary Basin in Alberta, Canada.

On February 27, 2024, Epsilon acquired a 25% working interest in three producing wells and 3,246 gross undeveloped acres on the Central Basin Platform in Ector County, Texas from a private operator. The assets are immediately offset to the assets acquired in June 2023. The total purchase price was $14.8 million.

In the second and third quarter of 2024, Epsilon participated in the drilling and completion of 2 gross wells in Ector County, Texas. The wells were put on production in June and August 2024.

In April 2024, Epsilon acquired a 50% working interest in 14,243 gross acres for $1.0 million. Epsilon participated in the drilling of 2 gross wells in the third and fourth quarter of 2024.

In October 2024, Epsilon formed a joint venture with a private operator covering lands in the Western Sedimentary Basin in Alberta, Canada. Epsilon will earn a 25% working interest across approximately 160,000 gross acres after fulfilling a carried interest commitment of $7.3 million before December 1, 2025.

We continue to evaluate new opportunities in numerous onshore North American natural gas and oil basins.

Three and nine months ended September 30, 2024 Highlights

Operational Highlights

Marcellus Shale – Pennsylvania

- During the three months ended September 30, 2024, Epsilon's realized natural gas price was $1.54 per Mcf, a 44% increase over the three months ended September 30, 2023. During the nine months ended September 30, 2024, Epsilon's realized natural gas price was $1.60 per Mcf, an 8% decrease over the nine months ended September 30, 2023.

- During the three months ended September 30, 2024, Epsilon’s net revenue interest natural gas production was 1.2 Bcf compared to 1.7 Bcf during the same period in 2023, a 32% decrease. During the nine months ended September 30, 2024, Epsilon’s net revenue interest natural gas production was 4.0 Bcf compared to 6.0 Bcf during the same period in 2023, a 33% decrease.

- Gathered and delivered 7.0 Bcf gross (2.5 net to Epsilon's interest) during the three months ended September 30, 2024, or 76 MMcf/d through the Auburn Gas Gathering System. Gathered and delivered 30.2 Bcf gross (10.6 net to Epsilon's interest) during the nine months ended September 30, 2024, or 111 MMcf/d through the Auburn Gas Gathering System.

- On May 17, 2024, Epsilon Energy USA, Inc. ("Epsilon”) executed a new Anchor Shipper Gas Gathering Agreement for Northern Pennsylvania (the "ASGGA”) with operator Appalachia Midstream Services, LLC for a primary term of ten years and an effective date of January 1, 2024. Epsilon simultaneously terminated the prior agreement. The new ASGGA establishes fixed gathering, compression and cross-flow rates for all shippers on each system into which Epsilon produces natural gas. These rates will be adjusted annually by the Consumer Price Index for All Urban Consumers ("CPI-U”) commencing January 2025. Notably, the gathering rates in Auburn GGS, Rome GGS & Overfield GGS will no longer be subject to a cost-of-service redetermination annually; however, acreage dedications, service priority levels, required shipper approvals and shipper voting procedures are all substantially similar to the prior agreement. The new fixed rate for gathering services in Auburn GGS for 2024 is $0.475 per MMBtu.

- At September 30, 2024, the Company had seven gross (.7 net) drilled and completed wells waiting to be turned in line.

Permian Basin – Texas and New Mexico

- During the three months ended September 30, 2024, Epsilon's realized price for all Permian Basin production was $54.19 per Boe (90% liquids), a 16% increase over the three months ended September 30, 2023. During the nine months ended September 30, 2024, Epsilon's realized price for all Permian Basin production was $53.82 per Boe (86% liquids), a 14% increase over the nine months ended September 30, 2023.

- Total net revenue interest production for the three months ended September 30, 2024, which included oil, natural gas liquids, and natural gas, was 73.3 Mboe compared to 13.9 Mboe during the same period in 2023, a 428% increase. Total net revenue interest production for the nine months ended September 30, 2024, which included oil, natural gas liquids, and natural gas, was 191.4 Mboe compared to 28.8 Mboe during the same period in 2023, a 565% increase.

Anadarko, NW Stack Trend – Oklahoma

- During the three months ended September 30, 2024, Epsilon's realized price for all Oklahoma production was $4.12 per Mcfe (58% natural gas), a 16% decline from the three months ended September 30, 2023. During the nine months ended September 30, 2024, Epsilon's realized price for all Oklahoma production was $4.31 per Mcfe (59% natural gas), a 20% decline from the nine months ended September 30, 2023.

- Total net revenue interest production for the three months ended September 30, 2024 included natural gas, oil and other liquids and was 0.10 Bcfe, a 34% decrease from the same period in 2023. Total net revenue interest production for the nine months ended September 30, 2024 included natural gas, oil and other liquids and was 0.32 Bcfe, a 36% decrease from the same period in 2023.

Non-GAAP Financial Measures-Adjusted EBITDA

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 sale of assets, (7) gain or loss on derivative contracts net of cash received or paid on settlement, and (8) net other income(expense). 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 Adjusted 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.

The table below sets forth a reconciliation of net income to Adjusted EBITDA for the three and nine months ended September 30, 2024 and 2023, which is the most directly comparable measure of financial performance calculated under U.S. GAAP and should be reviewed carefully.

	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**

Results of Operations

Net Operating Revenues

For the nine months ended September 30, 2024 revenues increased $0.4 million, or 2%, to $22.6 million from $22.2 million during the same period of 2023.

Revenue and volume statistics for the three and nine months ended September 30, 2024 and 2023 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Revenues				
Pennsylvania				
Natural gas revenue	$ 1,833,371	$ 1,873,658	$ 6,435,027	$ 10,482,695
Volume (MMcf)	1,190	1,746	4,032	6,035
Avg. Price ($/Mcf)	$ 1.54	$ 1.07	$ 1.60	$ 1.74
Gathering system revenue (net of elimination)	$ 1,083,988	$ 3,068,996	$ 4,464,134	$ 7,657,755
Total PA Revenues	**$ 2,917,359**	**$ 4,942,654**	**$ 10,899,161**	**$ 18,140,450**
Permian Basin				
Natural gas revenue	$ (27,499)	$ 23,298	$ 11,322	$ 57,742
Volume (MMcf)	57	15	158	35
Avg. Price ($/Mcf)	$ (0.48)	$ 1.53	$ 0.07	$ 1.67
Natural gas liquids revenue	$ 239,262	$ 67,441	$ 780,946	$ 136,640
Volume (MBOE)	13.1	3.2	39.1	7.1
Avg. Price ($/Bbl)	$ 18.31	$ 21.09	$ 19.99	$ 19.30
Oil and condensate revenue	$ 3,757,574	$ 555,335	$ 9,510,780	$ 1,158,750
Volume (MBbl)	50.7	8.1	126.1	15.9
Avg. Price ($/Bbl)	$ 74.11	$ 68.19	$ 75.45	$ 72.73
Total Permian Basin Revenues	**$ 3,969,337**	**$ 646,074**	**$ 10,303,048**	**$ 1,353,132**
Oklahoma				
Natural gas revenue	$ 98,074	$ 191,789	$ 381,806	$ 811,181
Volume (MMcf)	57	88	188	278
Avg. Price ($/Mcf)	$ 1.72	$ 2.19	$ 2.04	$ 2.92
Natural gas liquids revenue	$ 96,009	$ 160,571	$ 315,732	$ 532,655
Volume (MBOE)	4.1	5.4	13.4	19.0
Avg. Price ($/Bbl)	$ 23.60	$ 29.70	$ 23.55	$ 28.08
Oil and condensate revenue	$ 207,162	$ 369,439	$ 682,755	$ 1,329,521
Volume (MBbl)	2.7	4.7	8.7	17.5
Avg. Price ($/Bbl)	$ 77.33	$ 79.42	$ 78.06	$ 75.77
Total OK Revenues	**$ 401,245**	**$ 721,799**	**$ 1,380,293**	**$ 2,673,357**
Total Revenues	**$ 7,287,941**	**$ 6,310,527**	**$ 22,582,502**	**$ 22,166,939**

Upstream natural gas revenue for the nine months ended September 30, 2024 decreased by $4.5 million, or 40%, over the same period in 2023. A decrease of $1.0 million was due to lower natural gas prices and a decrease of $3.5 million was due to lower sales volumes as a result of natural decline in the wells and operator elected well shut-ins due to poor natural gas pricing in Pennsylvania. Upstream natural gas revenue for the three months ended September 30, 2024 decreased by $0.2 million, or 9%, over the same period in 2023. An increase of $0.4 million was due to higher natural gas prices and a decrease of $0.6 million was due to lower sales volumes as a result of natural decline in the wells and operator elected well shut-ins due to poor natural gas pricing in Pennsylvania.

Upstream natural gas liquids revenue for the nine months ended September 30, 2024 increased by $0.4 million, or 64% over the same period in 2023. An increase of $0.7 million was due to additional sales volumes from new wells drilled and acquired in the Permian Basin and a decrease of $0.3 million was due to lower sales prices. Upstream natural gas liquids revenue for the three months ended September 30, 2024 increased by $0.1 million, or 47% over the same period in 2023. An increase of $0.2 million was due to additional sales volumes from a new well drilled in the Permian Basin and a decrease of $0.1 million was due to lower sales prices.

Upstream oil and condensate revenue for the nine months ended September 30, 2024 increased by $7.7 million, or 310% over the same period in 2023. An increase of $7.5 million was due to additional sales volumes from new wells drilled and acquired in the Permian Basin and an increase of $0.2 million was due to slightly higher prices. Upstream oil and condensate revenue for the three months ended September 30, 2024 increased by $3.0 million, or 329% over the same period in 2023. An increase of $2.9 million was due to additional sales volumes from a new well drilled in the Permian Basin offset and an increase of $0.1 million was due to slightly higher prices.

Gathering system revenue decreased $3.2 million, or 42%, for the nine months ended September 30, 2024 over the same period in 2023. This was primarily the result of lower anchor shipper volumes due to natural decline in the wells and operator elected well shut-ins, offset partially by a 17% increase in the Auburn gathering rate. Gathering system revenue decreased $2.0 million, or 65%, for the three months ended September 30, 2024 over the same period in 2023. This was primarily the result of lower anchor shipper volumes due to natural decline in the wells and operator elected well shut-ins, offset partially by a 17% increase in the Auburn gathering rate. Revenues derived from transporting and compressing our production, which have been eliminated from gathering system revenues amounted to $0.3 million and $0.8 million, respectively, for the three and nine months ended September 30, 2024, and $0.3 million and $1.0 million, respectively, for the three and nine months ended September 30, 2023.

Operating Costs

The following table presents total cost and cost per unit of production (Mcfe), including ad valorem, severance, and production taxes for the three and nine months ended September 30, 2024 and 2023:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Lease operating costs (net of elimination)	$ 2,099,501	$ 1,559,957	$ 5,517,830	$ 4,404,757
Gathering system operating costs	490,325	631,725	1,692,862	1,854,000
	$ 2,589,826	**$ 2,191,682**	**$ 7,210,692**	**$ 6,258,757**
Upstream operating costs—Total $/Mcfe	1.22	0.79	1.00	0.66
Gathering system operating costs $/Mcf	0.23	0.15	0.39	0.16

Operating costs include the effects of elimination entries to remove the gathering fees paid to Epsilon's ownership in the gathering system.

Upstream operating costs consist of lease operating expenses necessary to extract natural gas and oil, including gathering and treating the natural gas and oil to ready it for sale. For the nine months ended September 30, 2024 these costs increased by $1.1 million, or 25%, over the same period in 2023. The increase is primarily due to the acquired and developed wells in the Permian Basin during the fourth quarter of 2023 and 2024. For the three months ended September 30, 2024 these costs increased by $0.5 million, or 35%, over the same period in 2023. The increase is primarily due to the acquired and developed wells in the Permian Basin during the fourth quarter of 2023 and 2024.

The higher unit operating costs in the three and nine months ending September 30, 2024 were primarily due to the higher liquids proportion of sales (Mcfe).

Gathering system operating costs consist primarily of rental payments for the natural gas fueled compression units and overhead fees due to the system's operator. For the nine months ended September 30, 2024, gathering system operating costs were constant, decreasing by $0.2 million, or 9% from the same period in 2023. For the three months ended September 30, 2024, gathering system operating costs decreased by $0.1 million, or 22% from the same period in 2023. The decrease related to lower throughput volumes.

Depletion, Depreciation, Amortization and Accretion ("DD&A")

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Depletion, depreciation, amortization and accretion	**$ 2,698,812**	**$ 1,392,032**	**$ 7,127,641**	**$ 4,780,766**

Natural gas and oil and gathering system assets are depleted and depreciated using the units of production method aggregating properties on a field basis. For leasehold acquisition costs and the cost to acquire proved and unproved properties, the reserve base used to calculate depreciation and depletion is total proved reserves. For natural gas and oil development and gathering system costs, the reserve base used to calculate depletion and depreciation is proved developed reserves.

Depreciation expense includes amounts pertaining to our office furniture and fixtures, leasehold improvements, computer hardware. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years. Also included in depreciation expense is an amount pertaining to buildings owned by the Company. Depreciation for the buildings is calculated using the straight-line method over an estimated useful life of 30 years.

Accretion expense is related to the asset retirement costs.

DD&A expense for the three and nine months ended September 30, 2024 increased by $1.3 million, or 94%, and $2.3 million, or 49%, respectively, from the same periods in 2023. This increase was a result of the new production in the Permian Basin and a lower reserve base in Pennsylvania used in the calculation, driven by lower SEC realized natural gas prices.

General and Administrative (“G&A”)

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
General and administrative	**$ 1,758,685**	**$ 1,980,011**	**$ 5,431,081**	**$ 5,959,906**

G&A expenses consist of general corporate expenses such as compensation, legal, accounting and professional fees, consulting services, travel and other related corporate costs such as restricted stock units granted.

G&A expenses for the three and nine months ended September 30, 2024 and 2023 decreased by $0.2 million, or 11%, and $0.5 million, or 9%, respectively, from the same period in 2023. This was primarily due to lower cash bonus expenses and lower legal fees.

Interest Income

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Interest income	**$ 96,220**	**$ 384,732**	**$ 471,435**	**$ 1,308,695**

Interest income for the three and nine months ended September 30, 2024 and 2023 decreased by $0.3 million, or 75%, and $0.8 million, or 64%, respectively, from the same period in 2023. This was primarily due to a reduction in the amount of outstanding financial instruments in short term investments.

Interest Expense

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Interest expense	**$ 53,125**	$ **8,760**	**$ 70,644**	$ **71,619**

Interest expense is related to the fees paid on the revolving credit facility.

Interest expense during the nine months ended September 30, 2024 and 2023 was materially unchanged. Interest expense for the three months ended September 30, 2024 and 2023 increased by $0.04 million, or 506%, as a result of a change in the fee structure under the new credit facility.

Gain (Loss) on Derivative Contracts

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Gain (loss) on derivative contracts	$ 440,712	$ (24,303)	$ 245,095	$ 1,672,535

For the three and nine months ended September 30, 2024, Epsilon had NYMEX HH Natural Gas futures swaps, Tennessee Gas Pipeline Zone 4 basis swaps, and crude oil NYMEX WTI CMA swaps derivative contracts for the purpose of hedging a portion of its physical natural gas and oil sales revenue. For the three and nine months ended September 30, 2023, Epsilon had NYMEX HH Natural Gas Futures swaps and Tennessee Gas Pipeline Zone 4 basis swap derivative contracts for the purpose of hedging a portion of its physical natural gas sales revenue.

During the three and nine months ended September 30, 2024, we received net cash settlements of $485,389 and $1,245,931, respectively. During the three and nine months ended September 30, 2023, we received net cash settlements of $1,346,270 and $2,979,128, respectively.

For the nine months ended September 30, 2024, net gains on derivative contracts decreased by $1.4 million. This decrease was primarily the result of NYMEX Henry Hub prices not declining as much relative to the strike price of the hedge in 2024 as compared to 2023. For the three months ended September 30, 2024, net gains on derivative contracts increased by $0.5 million. This increase was primarily a result of declining NYMEX Henry Hub and WTI CMA prices in 2024. There were minimal price fluctuations for the same period in 2023.

Capital Resources and Liquidity

Cash Flow

The primary source of cash for Epsilon during the three and nine months ended September 30, 2024 and 2023 was funds generated from operations. The primary uses of cash for the three and nine months ended September 30, 2024 and 2023 were the development of upstream properties, investment in U.S. Treasury Bills, the repurchase of shares of common stock, and the distribution of dividends.

At September 30, 2024, we had a working capital surplus of $7.5 million, a decrease of $25.7 million from the $33.2 million surplus at December 31, 2023. The Company anticipates its current cash balance, short term investments, available borrowings, and cash flows from operations to be sufficient to meet its cash requirements for at least the next twelve months.

Nine months ended September 30, 2024 compared to 2023

During the nine months ended September 30, 2024, $11.8 million was provided by the Company’s operating activities, compared to $14.4 million during the same period in 2023, representing an 18% decrease.

The Company used $11.0 million and $37.1 million of cash for investing activities during the nine months ended September 30, 2024 and 2023, respectively. During the nine months ended September 30, 2024, the Company had net investments of $30.1 million primarily on leasehold and well costs in Pennsylvania, Texas, and Canada offset by net proceeds of $19.1 million in U.S. Treasury Bills. During the nine months ended September 30, 2023, the Company had net investments of $18.3 million in U.S. Treasury Bills and $18.8 million in leasehold and development costs targeting increasing production in Pennsylvania, the Permian Basin, and Oklahoma.

The Company used $5.9 million and $10.1 million of cash for financing activities during the nine months ended September 30, 2024 and 2023, respectively. This was spent on dividend payments and the repurchase of shares of common stock.

Credit Agreement

The Company closed a senior secured reserve based revolving credit facility on June 28, 2023 with Frost Bank as issuing bank and sole lender. The current commitment and borrowing base is $45 million (redetermined on June 25, 2024), supported by the Company's upstream assets and subject to semi-annual redeterminations with a maturity date of the earlier of June 28, 2027 or the date that the commitments are terminated. Interest will be charged at the Daily Simple SOFR rate plus a margin of 3.25%. The facility is secured by the assets of the Company's Epsilon Energy USA subsidiary (Borrower) and guaranteed by the Company and the other wholly owned subsidiaries. There are currently no borrowings under the facility.

Under the terms of the facility, the Company must adhere to the following financial covenants:

- Current ratio of 1.0 to 1.0 (current assets / current liabilities)

- Leverage ratio of less than 2.5 to 1.0 (total debt / income adjusted for interest, taxes and non-cash amounts)

Additionally, if the Leverage ratio is greater than 1.0 to 1.0, or the borrowing base utilization is greater than 50%, the Company is required to hedge 50% of the anticipated production from PDP reserves for a rolling 24 month period.

Repurchase Transactions

On March 20, 2024, the Board of Directors authorized a new share repurchase program of up to 2,191,320 common shares, representing 10% of the outstanding common shares of Epsilon at such time, for an aggregate purchase price of not more than US $12.0 million. The program is pursuant to a normal course issuer bid and will be conducted in accordance with Rule 10b-18 under the Exchange Act. The program commenced on March 27, 2024 and will end on March 26, 2025, unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination.

During the three and nine months ended September 30, 2024, 125,000 shares have been repurchased at a price of $5.00 per share (excluding commissions) under the new program. These shares are currently held in treasury and will be retired during the fourth quarter of 2024.

The previous share repurchase program commenced on March 27, 2023 and ended on March 26, 2024. During the year ended December 31, 2023, we repurchased 968,149 common shares at an average price of $5.08 per share (excluding commissions) under the previous plan. In 2024, we repurchased and retired 248,700 shares at a price of $4.82 per share (excluding commissions) before the plan terminated.

During the nine months ended September 30, 2024, the Company repurchased 373,700 shares at a price of $4.88 per share (excluding commissions) under the two consecutive repurchase programs.

Derivative Transactions

The Company has entered into hedging arrangements to reduce the impact of commodity price volatility on operations. By reducing the price volatility from a portion of natural gas and crude oil production, the potential effects of changing prices on operating cash flows have been partially mitigated, but not eliminated. While mitigating the negative effects of falling commodity prices, these derivative contracts also limit the benefits we might otherwise receive from increases in commodity prices.

At September 30, 2024, Epsilon's outstanding natural gas and crude oil commodity contracts consisted of the following:

Derivative Type	Volume (MMbtu)	Weighted Average Price ($/MMbtu) Swaps	Fair Value of Asset September 30, 2024
2024			
NYMEX Henry Hub swap	457,500	$ 3.24	$ 45,693
Tennessee Z4 basis swap	305,000	$ (1.04)	$ (65,925)
	762,500		$ (20,232)
2025			
NYMEX Henry Hub swap	675,000	$ 3.47	$ 33,990
Tennessee Z4 basis swap	675,000	$ (0.74)	$ (107,588)
	1,350,000		$ (73,598)

Derivative Type	Volume (Bbl)	Weighted Average Price ($/Bbl)	Fair Value September 30, 2024
2024			
Crude Oil NYMEX WTI CMA	14,983	$ 74.34	$ 98,978
2025			
Crude Oil NYMEX WTI CMA	13,162	$ 74.34	$ 94,271
	28,145		$ 193,249

Contractual Obligations

The Company enters into commitments for capital expenditures in advance of the expenditures being made. As of September 30, 2024, the Company has no unpaid short term commitments for capital expenditures and has long term commitments of $15.2 million for asset retirement obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings and cash flow are significantly affected by changes in the market price of commodities. The prices of natural gas and oil can fluctuate widely and are influenced by numerous factors such as demand, production levels, world political and economic events, and the strength of the US dollar relative to other currencies. Should the price of natural gas and oil decline substantially, the value of our assets could fall dramatically, impacting our future operations and exploration and development activities, along with our gas gathering system revenues. In addition, our operations are exposed to market risks in the ordinary course of our business, including interest rate and certain exposure as well as risks relating to changes in the general economic conditions in the United States.

Gathering System Revenue Risk

The Auburn Gas Gathering System lies within the Marcellus Basin with historically high levels of recoverable reserves and low cost of production. We believe that a short-term low commodity price environment will not significantly impact the reserves produced and thus the revenue of our gas gathering system.

Interest Rate Risk

Market risk is estimated as the change in fair value resulting from a hypothetical 100 basis point change in the interest rate on the outstanding balance under our credit agreement. The credit agreement allows us to fix the interest rate.

At September 30, 2024 and 2023, the outstanding principal balance under the credit agreement was nil.

Derivative Contracts

The Company's financial results and condition depend on the prices received for production. Natural gas, natural gas liquids, and crude oil prices have fluctuated widely and are determined by economic and political factors. Supply and demand factors, including weather, general economic conditions, the ability to transport to other regions, as well as conditions in other regions, impact prices. Epsilon has established a hedging strategy and may manage the risk associated with changes in commodity prices by entering into various derivative financial instrument agreements and physical contracts. Although these commodity price risk management activities could expose Epsilon to losses or gains, entering into these contracts helps to stabilize cash flows and support the Company's capital spending program.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Our chief executive officer and chief financial officer have concluded that our current disclosure controls and procedures were effective as of September 30, 2024 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that of limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchases of Equity Securities by Epsilon Energy Ltd.

The following table contains information about our acquisition of equity securities during the nine months ended September 30, 2024.

	Total number of shares purchased	Average price paid per share	Maximum number of shares remaining to be purchased under the program
Beginning of normal-course issuer bid, March 27, 2023 (1)			1,324,495
January 2024	248,700	$ 4.82	
Total as of March 26, 2024	248,700	$ 4.82	1,075,795
Beginning of normal-course issuer bid, March 27, 2024 (2)			2,191,320
September 2024	125,000	$ 5.00	
Total as of September 30, 2024	125,000	$ 5.00	2,066,320

(1) Epsilon repurchased these shares under its 2023-2024 share repurchase program that commenced on March 27, 2023 and terminated on March 26, 2024.

(2) Epsilon repurchased these shares under its 2024-2025 share repurchase program that commenced on March 27, 2024 and terminates on March 26, 2025.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. —EXHIBITS

Exhibit No.	Description of Exhibit
31.1	Sarbanes-Oxley Section 302 certification of Principal Executive Officer .
31.2	Sarbanes-Oxley Section 302 certification of Principal Financial Officer.
32.1	Sarbanes-Oxley Section 906 certification of Principal Executive Officer.
32.2	Sarbanes-Oxley Section 906 certification of Principal Financial Officer.
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Schema Document.
101.CAL	Inline XBRL Calculation Linkbase Document.
101.DEF	Inline XBRL Definition Linkbase Document.
101.LAB	Inline XBRL Labels Linkbase Document.
101.PRE	Inline XBRL Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Epsilon Energy Ltd.
(Registrant)

Date: November 6, 2024

By: */s/ J. Andrew Williamson*
J. Andrew Williamson
Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jason Stabell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Epsilon Energy Ltd. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 6, 2024

/s/ Jason Stabell
Jason Stabell
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, J. Andrew Williamson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Epsilon Energy Ltd. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 6, 2024

/s/ J. Andrew Williamson

J. Andrew Williamson
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Epsilon Energy Ltd. (the "Corporation") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

Date: November 6, 2024

/s/ Jason Stabell
Jason Stabell
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Epsilon Energy Ltd. (the "Corporation") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

Date: November 6, 2024

/s/ J. Andrew Williamson

J. Andrew Williamson
Chief Financial Officer