

REFINITIV

DELTA REPORT

10-K

EPSN - EPSILON ENERGY LTD.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	9306
CHANGES	364
DELETIONS	2803
ADDITIONS	6139

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022 2023.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-38770

EPSILON ENERGY LTD.

(Exact name of registrant as specified in its charter)

Alberta, Canada

(State or Other Jurisdiction of Incorporation or Organization)

98-1476367

(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

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

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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

Yes ☐ No ☒

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: ~~\$80.2 million~~ ~~\$90.5 million~~. There were ~~22,926,444~~ ~~21,913,202~~ Common Shares (no par value) outstanding as of ~~March 22, 2023~~ ~~March 19, 2024~~.

PART I

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 statements" 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 oil and natural gas production rates, commodity prices for crude oil or natural gas, supply and demand for oil and natural gas; the estimated quantity of oil and natural gas 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 this Annual Report on Form 10-K, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

DEFINED TERMS

We have included below the definitions for certain terms used in this document:

"3-D seismic" Geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D, or two-dimensional, seismic.

"ABCA" Business Corporations Act (Alberta).

"Anchor shippers" Parties listed in the Anchor Shipper Gas Gathering Agreement for Northern Pennsylvania, including Epsilon Energy USA, Inc., Equinor USA Onshore Properties, Inc., and Chesapeake Energy Corporation. for the Auburn Gas Gathering System.

"ASC" Accounting Standards Codification.

"Bbl" One stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to oil, NGLs and other liquid hydrocarbons.

"Bcf" One billion cubic feet, used in reference to natural gas.

"BOE" One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals six Mcf of natural gas and one Bbl of crude oil equals one Bbl of natural gas liquids.

"Completion" The process of preparing a natural gas and oil wellbore for production through the installation of permanent production equipment, as well as perforation and fracture stimulation to optimize production.

"Delay rental" Consideration paid to the lessor by a lessee to extend the terms of an oil and natural gas lease in the absence of drilling operations and/or production that is contractually required to hold the lease. This consideration is generally required to be paid on or before the anniversary date of the natural gas and oil lease during its primary term, and typically extends the lease for an additional year.

"Development well" A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

1

"Differential" The difference between a benchmark price of oil and natural gas, such as the NYMEX crude oil spot price, and the wellhead price received.

"Dry hole" A well found to be incapable of producing either natural gas or oil in sufficient quantities to justify completion as a natural gas or oil well.

"Exit rate" Upstream term referring to the rate of production of oil and/or gas as of a specified date.

"Exploratory well" A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.

"FASB" Financial Accounting Standards Board.

"Field" An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas of interest, etc.

"Free cash flow" A measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. Free cash flow represents the cash that a company is able to generate after spending the money required to maintain or expand its asset base.

"GAAP" Generally accepted accounting principles in the United States of America.

"Gross acres" or "gross wells" The total acres or wells, as the case may be, in which a working interest is owned.

"Henry Hub" A natural gas pipeline located in Erath, Louisiana, that serves as the official delivery location for futures contracts on the NYMEX. The hub is owned by Sabine Pipe Line LLC and has access to many of the major gas markets in the United States.

"ISDA" International Swaps and Derivatives Association, Inc.

"Lease operating expense" or "LOE" The expenses of lifting oil or gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest, and also including labor, superintendence, supplies, repairs, short-lived assets, maintenance, allocated overhead costs and other expenses incidental to production, but not including lease acquisition or drilling or completion expenses.

"LIBOR" London interbank offered rate.

"MBbl" One thousand barrels of oil, NGLs or other liquid hydrocarbons.

"MBbl/d" One MBbl per day.

"MBOE" One thousand BOE.

"MBOE/d" One MBOE per day.

"Mcf" One thousand cubic feet, used in reference to natural gas.

"MMBbl" One million Bbl.

"MMBOE" One million BOE.

"MMBtu" One million British Thermal Units, used in reference to natural gas.

"MMcf" One million cubic feet, used in reference to natural gas.

"MMcf/d" One MMcf per day.

"Net acres" or "net wells" The sum of the fractional working interests owned in gross acres or wells, as the case may be.

"Net production" The total production attributable to the fractional working interest owned.

"NGL" Natural gas liquid.

2

"NGL" Natural gas liquid.

"NYMEX" The New York Mercantile Exchange.

"PDNP" Proved developed nonproducing reserves.

"PDP" Proved developed producing reserves.

"Plugging and abandonment" Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of most states legally require plugging of abandoned wells.

"Prospect" A property on which indications of oil or gas have been identified based on available seismic and geological information.

"Proved developed reserves" Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

"Proved reserves" Those reserves that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time.

The area of the reservoir considered as proved includes all of the following:

- a. The area identified by drilling and limited by fluid contacts, if any, and
- b. Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when both of the following occur:

- a. Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based, and
- b. The project has been approved for development by all necessary parties and entities, including governmental entities.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted

arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

“Proved undeveloped reserves” or “PUDs” Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless specific circumstances justify a longer time. Under no circumstances shall estimates of proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

“PV-10” The present value, discounted at 10% per annum, of future net revenues (estimated future gross revenues less estimated future costs of production, development, and asset retirement costs) associated with reserves and is not necessarily the same as market value. PV-10 does not include estimated future income taxes. Unless otherwise noted, PV-10 is calculated using the pricing scheme as required by the Securities and Exchange Commission (“SEC”). PV-10

of proved reserves is calculated the same as the standardized measure of discounted future net cash flows, except that the standardized measure of discounted future net cash flows includes future estimated income taxes discounted at 10% per annum. See the definition of standardized measure of discounted future net cash flows.

“Reasonable certainty” If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical and geochemical) engineering, and economic data are made to estimated ultimate recovery with time, reasonably certain estimated ultimate recovery is much more likely to increase or remain constant than to decrease.

“Reserves” Estimated remaining quantities of natural gas and oil and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering natural gas and oil or related substances to market, and all permits and financing required to implement the project.

“Reservoir” A porous and permeable underground formation containing a natural accumulation of producible crude oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“Royalty” The amount or fee paid to the owner of mineral rights, expressed as a percentage or fraction of gross income from crude oil or natural gas produced and sold, unencumbered by expenses relating to the drilling, completing or operating of the affected well.

“Royalty interest” An interest in an oil or natural gas property entitling the owner to shares of the crude oil or natural gas production free of costs of exploration, development and production operations.

“Section” An area of one square mile of land, 640 acres, with 36 sections making up one survey township on a rectangular grid.

“Standardized Measure” or “SMOG” The standardized measure of discounted future net cash flows (the “Standardized Measure”) is an estimate of future net cash flows associated with proved reserves, discounted at 10% per annum. Future net cash flows is calculated by reducing future net revenues by estimated future income tax expenses and discounting at 10% per annum. The Standardized Measure and the PV-10 of proved reserves is calculated in the same exact fashion, except that the Standardized Measure includes future estimated income taxes discounted at 10% per annum. The Standardized Measure is in accordance with U.S. GAAP.

“Working interest” The interest in a crude oil and natural gas property (normally a leasehold interest) that gives the owner the right to drill, produce and conduct operations on the property and to a share of production, subject to all royalties, overriding royalties and other

burdens and to all costs of exploration, development and operations and all risks in connection therewith.

“Workover” Operations on a producing well to restore or increase production.

ITEM 1. BUSINESS.

Summary

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. The Company is extra-provincially registered in Ontario pursuant to the *Business Corporations Act* (Ontario). 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 October 24, 2007, the Company became a publicly traded entity trading on the Toronto Stock Exchange (“TSX”) in Canada. 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.” Effective as of the close of trading on March 15, 2019, Epsilon voluntarily delisted its common shares from the TSX.

At December 31, 2022 December 31, 2023, Epsilon’s total estimated net proved reserves were 90,040 million 65,916 million cubic feet of natural gas reserves, 491,226 383,174 barrels of NGL reserves, and 211,059 341,286 barrels of oil and other liquids. Epsilon holds leasehold rights to approximately 75,954 84,684 gross (13,625 (15,463 net) acres. acres, excluding the Texas acreage acquired in February 2024. The Company has natural gas production in the Marcellus Shale in Pennsylvania and oil, natural gas liquids and natural gas production in the Permian Basin in Texas and New Mexico and in the Anadarko Basin in Oklahoma.

We conduct operations in the United States through our wholly owned subsidiaries Epsilon Energy USA Inc., an Ohio corporation, or Epsilon Energy USA; Epsilon Midstream, LLC, a Pennsylvania limited liability company, or Epsilon Midstream; Epsilon Operating, LLC, a Delaware limited liability company, company; Dewey Energy GP LLC, a Delaware limited liability company, company; Dewey Energy Holdings LLC, a Delaware limited liability company, company; and Altolisa Holdings, LLC, a Delaware limited liability company.

Substantially all the production from our Pennsylvania acreage (5,098 (4,807 net) is dedicated to the Auburn Gas Gathering System, or the Auburn GGS, located in Susquehanna County, Pennsylvania for a 15-year term expiring in 2026 under an operating agreement whereby the Auburn GGS owners receive a fixed percentage rate of return on the total capital invested in the construction and maintenance of the system. We own a 35% interest in the Auburn GGS which is operated by a subsidiary of Williams Partners, LP. In 2022, 2023, we paid \$1.5 million \$2.5 million (after elimination) to the Auburn GGS to gather and treat our 7.9 Bcf of natural gas production in Pennsylvania (\$2.8 million after elimination was paid to the Auburn GGS to gather and treat our 9.0 Bcf of natural gas production in Pennsylvania (\$1.6 million was 2022), including the fees paid to the Auburn GGS to gather and treat our 9.8 Bcf in 2021), subsidiary, Epsilon Midstream.

Our principal executive office is located at 500 Dallas Street, Suite 1250, Houston, Texas 77002, and our telephone number at that address is (281) 670-0002. Our registered office in Alberta, Canada is located at 14505 Bannister Road SE, Suite 300, Calgary, AB, Canada T2X 3J3.

Business highlights of 2022 2023

Operational Highlights

Marcellus Shale—Pennsylvania

- During the year ended December 31, 2022, 2023, Epsilon's realized natural gas price was \$5.96 \$1.74 per Mcf, excluding the impact of hedges, a 96% increase 71% decrease from \$3.04 \$5.96 for the year ended December 31, 2021 December 31, 2022.
- Total year ended December 31, 2022 2023, natural gas production sales was were 9.07.9 Bcf, as compared to 9.8 9.0 Bcf during 2021, 2022.
- Gathered and delivered 66.3 66.2 Bcf gross (23.2 Bcf net to Epsilon's interest) during the year, or 182 181 MMcf/d through the Auburn GGS.
- We participated in the drilling of 5 7 gross (0.05 (0.74 net) and completion of 4 2 gross (0.21 (0.02 net) Marcellus wells in 2022. These 2023. The completed wells went into production at various times in August and September. January 2023.
- At year end, the Company had 2 1 gross (0.02 (0.01 net) well being drilled and 6 gross (0.73 net) wells waiting on completion.

Permian Basin—New Mexico and Texas

- During the year ended December 31, 2023, Epsilon's realized price for all Permian Basin production was

5

\$52.49 per BOE, excluding the impact of hedges.

- Total sales for 2023 including oil, natural gas, and other liquids was 75.7 MBOE.
- In 2023, the Company acquired 12,373 gross (3,093 net) of undeveloped leasehold acres in Ector County, Texas.
- In 2023, the Company participated in the drilling and completion of 4 gross (0.7 net) wells. These wells went into production in April 2023 (1 – New Mexico), May 2023 (1 – New Mexico) and October 2023 (2 – Texas).

Anadarko, NW STACK Trend—Oklahoma

- During the year ended December 31, 2022 December 31, 2023, Epsilon's realized price for all Oklahoma production was \$8.68 \$5.35 per Mcfe, excluding the impact of hedges, a 37% increase 38% decrease from \$6.34 \$8.68 for the year ended December 31, 2021 December 31, 2022.
- Total sales production for 2022 included 2023 including natural gas, oil, and other liquids and was 0.93 0.60 Bcfe, as compared to 0.73 0.93 Bcfe during 2021, 2022.
- In 2022, 2023, the Company participated in the drilling of 2 gross (0.26 net) wells and completion of 3 gross (0.70 net) wells.
- At year end, the Company had 1 gross (0.11 net) well. The well waiting on completion, went into production in May 2023.

Properties

Wells

As of December 31, 2022 December 31, 2023, Epsilon's 75,954 84,684 gross (13,625 (15,463 net) acres are all located in the United States and include 351 362 gross (36.33 (37.47 net) wells.

	Gross(1)	Net(2)	Gross(1)	Net(2)
Producing Wells				
Gas	283	31.18	289	31.42
Oil	27	2.18	29	2.68
Total Producing Wells	310	33.36	318	34.10
Non-Producing Wells	41	2.97	44	3.37
Total Wells	351	36.33	362	37.47

Acreage

As of December 31, 2022 December 31, 2023, our leasehold inventory consisted of the following acreage amounts, rounded to the nearest acre:

	Gross ⁽¹⁾	Net ^{(2) (3)}	Gross ⁽¹⁾	Net ^{(2) (3)}
Developed Acres				
Pennsylvania	12,963	4,763	11,270	4,807
Texas			800	200
Oklahoma	7,063	2,290	5,113	991
	20,026	7,053	17,183	5,998
Undeveloped Acres				
Pennsylvania	335	335	335	335
Texas			11,573	2,893
Oklahoma	55,593	6,237	55,593	6,237
	55,928	6,572	67,501	9,465
Total Acres				
Pennsylvania	13,298	5,098	11,605	5,142
Texas			12,373	3,093
Oklahoma	62,656	8,527	60,706	7,228
Total acres	75,954	13,625	84,684	15,463

6

-
- (1) "Gross" means one-hundred percent of the working interest ownership in each leasehold tract of land.
- (2) "Net" means the Company's fractional working interest share in each leasehold tract of land on which productive wells have been drilled.
- (3) "Net Undeveloped" means the Company's fractional working interest share in each leasehold tract of land where productive wells have yet to be drilled. All of Epsilon's Oklahoma undeveloped properties are deep rights acreage which is held by production of developed properties.

6

Business Segments

Our operations are conducted by three operating segments for which information is provided in our consolidated financial statements for the years ended **December 31, 2022**, **December 31, 2023** and **2021, 2022**.

The three segments are as follows:

Upstream: Activities include acquisition, exploration, development and production of oil and natural gas reserves on properties within the United States.

Gathering System: We partner with two other companies to operate a natural gas gathering system.

Corporate: Activities include our corporate and governance functions.

For information about our segment's revenues, profits and losses, total assets, and total liabilities, see Note [12 Operating Segments](#) [14](#) "Operating Segments" in the Notes to Consolidated Financial Statements.

Oil and Natural Gas Production and Revenues and Gathering System Revenues

A summary of our net oil and natural gas production, average oil and natural gas prices and related revenues and our gathering system revenues for the years ended [December 31, 2022](#) [December 31, 2023](#) and [2021](#) [2022](#), respectively, follows:

	Year ended	
	December 31,	
	2023	2022
Production Volumes		
Pennsylvania		
Natural gas (MMcf)	7,906	9,026
Total (Mmcfe)	7,906	9,026
Permian Basin		
Natural gas (MMcf)	80	-
Natural gas liquids (MBOE)	18	-
Oil & other liquids (MBbl)	44	-
Total (Mmcfe)	454	-
Oklahoma		
Natural gas (MMcf)	354	477
Natural gas liquids (MBOE)	21	44
Oil & other liquids (MBbl)	21	32
Total (Mmcfe)	605	933
Company Total		
Natural gas (MMcf)	8,340	9,503
Natural gas liquids (MBOE)	39	44
Oil & other liquids (MBbl)	65	32
Total (Mmcfe)	8,965	9,959

	Year ended	
	December 31,	
	2022	2021
Production Volumes		
Pennsylvania		
Natural gas (MMcf)	9,026	9,830
Total (Mmcfe)	9,026	9,830
Oklahoma		
Natural gas (MMcf)	477	403
Natural gas liquids (MBbl)	44	29
Oil & other liquids (MBbl)	32	25
Total (Mmcfe)	935	727

Company Total				
Natural gas (MMcf)	9,503	10,233		
Natural gas liquids (MBbl)	44	29		
Oil & other liquids (MBbl)	32	25		
Total (Mmcfe)	9,961	10,557		
	Year ended		Year ended	
	December 31,		December 31,	
	2022	2021	2023	2022
Revenues				
Pennsylvania				
Natural gas revenue	\$ 53,759,354	\$ 29,909,651	\$13,733,052	\$53,759,354
Avg. Price (\$/Mcf)	\$ 5.96	\$ 3.04	\$ 1.74	\$ 5.96
Gathering system revenue	\$ 8,085,512	\$ 7,865,825		
Gathering system revenue (net of elimination)			\$ 9,790,531	\$ 8,085,512
Total PA Revenues	\$ 61,844,866	\$ 37,775,476	\$23,523,583	\$61,844,866
Permian Basin				
Natural gas revenue			\$ 117,112	\$ —
Avg. Price (\$/Mcf)			\$ 1.47	\$ —
Natural gas liquids revenue			\$ 353,612	\$ —
Avg. Price (\$/Bbl)			\$ 19.78	\$ —
Oil and condensate revenue			\$ 3,501,098	\$ —
Avg. Price (\$/Bbl)			\$ 78.71	\$ —
Total Permian Basin Revenues			\$ 3,971,822	\$ —
Oklahoma				
Natural gas revenue	\$ 3,189,380	\$ 1,798,534	\$ 1,014,050	\$ 3,189,380
Avg. Price (\$/Mcf)	\$ 6.68	\$ 4.46	\$ 2.87	\$ 6.68
Natural liquids revenue	\$ 1,733,129	\$ 1,053,486		
Natural gas liquids revenue			\$ 630,806	\$ 1,733,129
Avg. Price (\$/Bbl)	\$ 39.31	\$ 35.98	\$ 29.96	\$ 39.31
Oil and condensate revenue	\$ 3,195,334	\$ 1,776,496	\$ 1,589,491	\$ 3,195,334
Avg. Price (\$/Bbl)	\$ 99.24	\$ 70.70	\$ 76.37	\$ 99.24
Total OK Revenues	\$ 8,117,843	\$ 4,628,516	\$ 3,234,347	\$ 8,117,843
Total Company Revenues	\$ 69,962,709	\$ 42,403,992	\$30,729,752	\$69,962,709

Gathering System Operations

Epsilon Energy USA is the 100% owner of Epsilon Midstream, which owns a 35% undivided interest in the Auburn GGS, located in Susquehanna County, Pennsylvania, with partners Appalachia Midstream Services, LLC (43.875%) and Equinor Pipelines, LLC (21.125%). The Anchor Shippers, consisting of Epsilon Energy USA, Equinor USA Onshore Properties, Inc., and Chesapeake Energy Corporation, dedicated approximately 18,000 mineral acres to the Auburn GGS for an initial term of 15 years under an operating agreement whereby the Auburn GGS owners receive a fixed percentage rate of return on the total capital invested in the construction of the system.

The During 2023, the gathering rate of the Auburn GGS is was determined by a cost of service model whereby the Anchor Shippers dedicate acreage and reserves to the gas gathering system in exchange for the Auburn GGS owners agreeing to an 18% contractual rate of return on invested capital. The term of this arrangement is 15 years commencing January 1, 2012 and expiring December 31, 2026. Each year, the Auburn GGS historical and forecast throughput, revenue, operating expenses and capital expenditures are entered into the cost of service model. The model then computes the new gathering rate that will yield the contractual rate of return to the Auburn GGS owners. In January 2027, the Auburn GGS will transition to a

fixed gathering rate.

Revenues from the Auburn GGS are earned primarily from the Anchor Shippers. Revenues are also earned from third-party customers of the system to transport gas from the wellhead to the compression facility, and then to the delivery meter at Tennessee Gas Pipeline. The relative mix of Anchor Shipper gas and third-party gas is critical to the revenue and earnings of the Auburn GGS because the third-party gathering rate is only 25% of the Anchor Shipper rate. Third-party shippers must pay the gathering rate of the originating gathering system plus 25% of the Auburn GGS gathering rate. The purpose of the reduced rate is to attract additional volumes that require delivery to Tennessee Gas Pipeline when there is spare capacity at the Auburn compression facility, or the "Auburn CF". Throughput at the Auburn CF has declined from 100.1 Bcf in 2018 to 66.3 66.2 Bcf in 2022, 2023, a decrease of 34%. However, Anchor Shipper gas as a percentage of total throughput has increased from 57% in 2018 to 71% 74% in 2022, 2023. As a result of this shift toward a higher percentage of Anchor Shipper gas, as well as higher gathering rates charged, revenues and earnings for the gathering system have only declined 21% and 15%, respectively, 2% from 2018 to 2022, 2023.

8

The Auburn GGS consists of approximately 44 miles of gathering pipelines, a small auxiliary compression facility and a main compression facility with three dehydration units and three Caterpillar 3612 compression units. At inception, the capacity of the Auburn CF was approximately 330,000 Mcf per day at a design suction pressure of 800 psig. The design suction pressure was subsequently reduced to 550 psig in June 2020 at the request of the Anchor Shippers. This request served to minimize throughput decline during a period of low pricing in which the drilling of new wells was undesirable. Operating at the lower design suction pressure also has the benefit of reducing hydrate occurrences in the system which can pose an operational hazard. The current system capacity of the Auburn CF at this lower design pressure is approximately 220,000 Mcf per day. The facility capacity could be increased again, if required, by either adding compression units or increasing the design suction pressure.

The Auburn CF delivers processed natural gas into the Tennessee Gas Pipeline at the Shoemaker Dehy receipt meter. The Auburn GGS is connected with the adjacent Rome GGS, which allows for the receipt of additional natural gas to maximize utilization of the Auburn CF and Tennessee Gas Pipeline meter capacity.

During the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Auburn GGS delivered 66.3 66.2 Bcf and 63.2 66.3 Bcf respectively, of natural gas, or 182 181 and 173 182 MMcf per day.

Revenues Gathering system revenues derived from Epsilon's production, which have been eliminated from total gathering system revenues ("elimination entry"), amounted to \$1.5 million \$1.4 million and \$1.6 million \$1.5 million, respectively, for the years ended December 31, 2022 December 31, 2023 and 2021, 2022.

Proved Reserves

Per our reserve report prepared by independent petroleum consultants, DeGolyer and MacNaughton, our estimated proved reserves as of December 31, 2022 December 31, 2023, are summarized in the table below. See Risk Factors for information relating to the uncertainties surrounding these reserve categories.

	Natural Gas MMcf	Natural Gas Liquids MBbl	Oil and Other Liquids MBbl	Total MMcfe	Natural Gas MMcf	Natural Gas Liquids MBbl	Oil and Other Liquids MBbl	Total MMcfe
Proved developed reserves	78,966	198	107	80,795	47,555	249	272	50,681
Proved undeveloped reserves	11,074	293	104	13,459	18,361	134	69	19,581
Total Proved Reserves at December 31, 2022	90,040	491	211	94,254				

Total Proved Reserves at								
December 31, 2023					65,916	383	341	70,262
Changes in Total Proved Undeveloped Reserves								
Proved undeveloped reserves at December 31, 2021	38,743	663	239	44,155				
Proved undeveloped reserves at December 31, 2022					11,074	293	104	13,459
Revisions of previous estimates	(21,598)	(220)	(74)	(23,362)	7,549	(132)	(25)	6,602
Extensions and discoveries	—	—	—	—				
Transfers to proved developed	(6,071)	(150)	(61)	(7,334)	(262)	(27)	(10)	(480)
Proved undeveloped reserves at December 31, 2022	11,074	293	104	13,459				
Proved undeveloped reserves at December 31, 2023					18,361	134	69	19,581

Revisions to previous estimates for total proved undeveloped reserves for 2022 2023 include reductions additions of 23,505 14,867 MMcfe related to changes to the previously adopted development plan additions and reductions of 226 8,265 MMcfe related to commodity pricing, and reductions of 83 MMcfe related to well performance, pricing. Transfers to proved developed relates to the development

9

of one well in Pennsylvania and three wells in Oklahoma.

We have did not engaged engage in any exploration capital spending in 2022 2023 or 2021, 2022. Our development capital spending to convert proved undeveloped reserves to proved developed reserves for the periods indicated is as follows:

- In 2023 in Pennsylvania, we drilled 7 gross (0.74 net) wells and completed 2 gross (0.02 net) wells. (Net development capital \$2.5 million). The two wells turned online in January 2023.
- In 2022 in Pennsylvania, we drilled 5 gross (0.05 net) wells were drilled and completed 4 gross (0.21 net) completed wells. (Net development capital \$2.5 million). Reserves of 5.4 Bcf for the 1 well with proved undeveloped reserves were reclassified as proved developed producing as this well was turned online in August 2022. Additionally, 2 gross (0.02 net) wells were drilled in 2022, but not completed (development capital \$0.1 million). They were completed and turned online in January 2023.
- In 2021 2023 in Pennsylvania, 3 Oklahoma, we completed 1 gross (0.42 (0.11 net) wells were drilled and 3 gross (0.27 net) completed well. (Net development capital \$4.1 million \$0.7 million). Reserves of 4.6 Bcf for the 3 wells were reclassified as proved developed producing as these wells were The

9

well turned online at various times beginning in January and going through October of 2021. Additionally, 1 gross (0.18 net) well was drilled in 2021, but not completed (development capital \$0.2 million). May 2023.

- In 2022 in Oklahoma, we drilled 2 gross (0.26 net) wells and completed 3 gross (0.7 net) wells. (Net development capital \$5.4 million). Reserves of 2.9 Bcfe for the 3 wells were reclassified as proved developed producing as these wells were **tuned turned** online at various times beginning in March 2022 and going through October 2022. One gross (0.11 net) well was drilled in 2022, but not completed. It is scheduled to be **was** completed in **April May** 2023.
- In 2021 in Oklahoma, we drilled 4 gross (0.75 net) wells and completed 2 gross (0.6 net) wells. (Net development capital \$3.0 million). Reserves of 2.8 Bcfe were reclassified as proved developed producing.

Internal Controls Over Reserves Estimation Process and Qualifications of Technical Persons with Oversight for the Company's Overall Reserve Estimation Process

Our policies regarding internal controls over reserve estimates require reserves to be prepared by an independent engineering firm under the supervision of our Chief Operating Officer, and to be in compliance with generally accepted geologic, petroleum engineering and evaluation principles and definitions and guidelines established by the SEC. The corporate staff interacts with our internal petroleum engineers and geoscience professionals in each of our operating areas and with operating, accounting and marketing employees to obtain the necessary data for the reserves estimation process. We provide our engineering firm with property interests, production, capital budgets, current operating costs, current production prices and other information. This information is reviewed by our Chief Operating Officer to ensure accuracy and completeness of the data prior to submission to our independent engineering firm. Reserves are reviewed and approved internally by our Chief Operating Officer on a semi-annual basis. Our Chief Operating Officer holds a Bachelor of Science degree in Petroleum Engineering and received a Master's Degree of Business Administration. He has over 30 years of experience in upstream exploration and production, and has managed all phases of drilling, completions, production and field operations.

The reserve information in this report is based on estimates prepared by DeGolyer and MacNaughton, our independent petroleum consultants. Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principles and techniques that are in accordance with the reserves definitions of Rules 4-10(a) (1)-(32) of Regulation S-X of the SEC and with practices generally recognized by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (revised June 2019) Approved by the SPE Board on 25 June 2019" and in Monograph 3 and Monograph 4 published by the Society of Petroleum Evaluation Engineers. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

For the evaluation of unconventional reservoirs, a performance-based methodology integrating the appropriate geology and petroleum engineering data was utilized for this report. Performance-based methodology primarily includes

10

(1) production diagnostics, (2) decline-curve analysis, and (3) model-based analysis (if necessary, based on availability of data). Production diagnostics include data quality control, identification of flow regimes, and characteristic well performance behavior. These analyses were performed for all well groupings (or type-curve areas).

The person responsible for preparing the reserve report, Dilhan Ilk, is a Registered Professional Engineer (No.139334) in the State of Texas and a Senior Vice President of the firm. Mr. Ilk graduated from Texas A&M University with a Doctor in Philosophy degree in Petroleum Engineering, is a member of the Society of Petroleum Engineers, and has in excess of **11 13** years of experience in oil and gas reservoir studies and reserves evaluations.

Marketing and Major Customers

Natural gas marketing is competitive in northeast Pennsylvania because of the limited interstate transportation capacity and ample natural gas supply. We do not currently own any firm transportation on interstate pipelines that would enable us to diversify our natural gas sales to downstream **customers, locations**. As a result, all of our Pennsylvania gas sales occur in Zone 4 of the Tennessee Gas Pipeline at the Shoemaker Dehy meter, which is the receipt point from the Auburn CF.

Epsilon uses a third-party service, ARM Energy Management LLC ("ARM") for its natural gas marketing. In this capacity, ARM is responsible for carrying out marketing activities such as submission of nominations, receipt of payments, **and** submission of **invoices and**

negotiation of contracts. invoices.

10

For the year ended December 31, 2022 December 31, 2023, we sold natural gas through ARM to 26 33 unique customers. Direct Energy Business Marketing, LLC and EQT Energy, LLC each accounted for 10% or more of our total revenue. For the year ended December 31, 2021 December 31, 2022, we sold natural gas through ARM to 30 26 unique customers. Direct Energy Business Marketing, LLC and SWN Energy Services Company, LLC each accounted for 10% or more of our total revenue.

Geographic Locations of Operations

Approximately 91% 77% and 93% 88% of our production revenue during fiscal 2022 years 2023 and 2021, 2022, respectively, was derived from natural gas production and gathering system revenues in the state of Pennsylvania. Our asset As a result of prolonged weak pricing in Pennsylvania Zone 4 of the Tennessee Gas Pipeline and, therefore, a reduced pace of development, Epsilon's management is striving to allocate capital to additional upstream opportunities outside of the Marcellus Shale. More specifically, the Company has not yet reached allocated capital to the mature stage, but at some point, we may need Permian Basin through its investments in New Mexico and Texas. Epsilon's management expects to acquire continue to seek opportunities outside of the Marcellus Shale in order to provide the Company the flexibility to respond to market conditions by allocating capital across multiple basins and develop other producing assets to maintain our current level or to grow. commodities.

As a result of this the geographic concentration, we may be disproportionately exposed to the effect of regional supply and demand factors, delays or interruptions of production from wells in this area caused by governmental regulation, processing or transportation capacity constraints, market limitations, weather events or interruption of the processing or transportation of crude oil or natural gas.

Competition

It is not uncommon in the oil and natural gas industry to experience shortages of drilling and completion rigs, equipment, pipe, services, and personnel, which can cause both delays in development drilling activities and significant cost increases. We are exposed to the risk of industry competition for drilling rigs, completion rigs and availability of related equipment and services, among other goods and services required in our business.

Our Status as an Emerging Growth Company

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or the "JOBS Act". Certain specified reduced reporting and other regulatory requirements are available to public companies that are emerging growth companies. These provisions include:

- an exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting required by Section 404 of the Sarbanes—Oxley Act of 2002; 2002 (provided that this exemption will continue for such time as we are a "non-accelerated filer");
- an exemption from the adoption of new or revised financial accounting standards until they would apply to

11

private companies;

- an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about our audit and our financial statements; and
- reduced disclosure about our executive compensation arrangements.

We have elected to take advantage of the exemption from the adoption of new or revised financial accounting standards until they would apply to private companies.

We will continue to be an emerging growth company **until the earliest of: not later than December 31, 2024.**

- **the last day of our fiscal year in which we have total annual gross revenues of \$1.235 billion (as such amount is indexed for inflation every five years by the SEC to reflect the change in the Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics, setting the threshold to the nearest \$1 million) or more;**
- **the last day of our fiscal year following the fifth anniversary of the date of our first issuance of common equity securities under an effective Securities Act registration statement (December 31, 2019);**
- **the date on which we have, during the prior three-year period, issued more than \$1 billion in non-convertible debt; or**
- **the date on which we are deemed to be a large accelerated filer under the rules of the SEC, which means the market value of our common shares that is held by non-affiliates (or public float) exceeds \$700 million as of the last day of our second fiscal quarter in our prior fiscal year.**

Employees

As of **December 31, 2022** **December 31, 2023**, we had **nine ten** full-time employees (including executive officers) in Houston, Texas.
None

11

of our employees are subject to a collective bargaining agreement or represented by a union.

The foundation of our Company is our employees and our success begins with a values-driven culture and commitment to developing a skilled, agile, diverse and engaged workforce where every employee understands that they can and do make a difference. Advancing a safe, ethical, inclusive and diverse culture creates an environment that attracts and retains the high-performing workforce needed to successfully execute our strategy.

To build a better tomorrow for everyone, we **We** continue to foster a culture that embraces inclusion and diversity and encourages collaboration. Our core values include inclusion and diversity, and we believe in equity and the value and voice of every employee.

Legal Proceedings

On March 10, 2021, Epsilon filed a complaint against Chesapeake Appalachia, LLC ("Chesapeake") in the United States District Court for the Middle District of Pennsylvania, Scranton, Pennsylvania ("Middle District"). Epsilon **claims claimed** that Chesapeake **has had** breached a settlement agreement and several operating agreements ("JOAs") to which Epsilon and Chesapeake are parties. Epsilon **asserts asserted** that Chesapeake **has had** failed to cooperate with Epsilon's efforts to develop resources in the Auburn Development, located in **Northeast North-Central** Pennsylvania, as required under both the settlement agreement and JOAs.

Epsilon requested a preliminary injunction but was unsuccessful in obtaining that injunction. Epsilon filed a motion to amend its original Complaint. Chesapeake opposed. The Court ruled in Epsilon's favor and allowed

12

Epsilon's amendment. Chesapeake moved to dismiss the amended Complaint. The Court granted the motion to dismiss on a narrow issue without prejudice to Epsilon's right to file a new lawsuit based on new proposals made after the Court's decision. Epsilon filed a motion for reconsideration of that decision, but the court denied the motion for reconsideration on January 18, 2022.

Epsilon filed a notice of appeal on February 15, 2022 challenging both the motion to dismiss and motion for reconsideration decisions. Chesapeake filed a cross-appeal on March 1, 2022. A briefing schedule was set and briefing closed October 14, 2022. Oral argument was held in January 2023. A decision on the appeal is not expected until mid-2023.

Epsilon re-filed a complaint against Chesapeake District Court's rulings in the Middle District on May 9, 2022. Epsilon generally asserts similar claims as in the previous suit, pursuing declaratory judgment claims regarding Chesapeake's obligation to Epsilon to cooperate with Epsilon's efforts in the Auburn Development and regarding Chesapeake's obstruction of Epsilon's efforts with the Pennsylvania Department of Environmental Protection permitting process but not based on specific well proposals. Chesapeake filed a motion to stay pending a decision on case. Following the Third Circuit appeal, which Circuit's ruling to remand the case back to District court, Epsilon sought and was granted. The matter is stayed pending granted a decision from dismissal of the Third Circuit case without prejudice in September 2023.

Regulation

Environmental Regulation

Epsilon is subject to various federal, state and local laws and regulations governing the handling, management, disposal and discharge of materials into the environment or otherwise relating to the protection of human health, safety and the environment. Numerous governmental agencies, such as the U.S. Environmental Protection Agency, or the EPA, issue regulations to implement and enforce such laws, which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties or that may result in injunctive relief for failure to comply. These laws and regulations may:

- require the acquisition of various permits before drilling commences;
- restrict the types, quantities and concentrations of various substances, including water and waste, that can be released into the environment;
- limit or prohibit activities on lands lying within wilderness, wetlands and other protected areas; and
- require remedial measures to mitigate pollution from former and ongoing operations, such as requirements to close pits and plug abandoned wells.

Compliance with environmental laws and regulations increases Epsilon's overall cost of business, but has not had, to date, a material adverse effect on Epsilon's operations, financial condition or results of operations. In addition, it is not anticipated, based on current laws and regulations, that Epsilon will be required in the near future to expend amounts (whether for environmental control facilities or otherwise) that are material in relation to its total exploration and

development expenditure program in order to comply with such laws and regulations. However, given that such laws and regulations are subject to change, Epsilon is unable to predict the ultimate cost of compliance or the ultimate effect on Epsilon's operations, financial condition and results of operations.

Climate Change

There is consensus in the international scientific community that increasing concentrations of greenhouse gas emissions ("GHG") in the atmosphere will produce changes to global, as well as local, climate. Scientists project that increased concentrations of GHGs will cause more frequent, and more powerful storms, droughts, floods and other climatic events. If such effects were to occur, our development and production operations, as well as operations of our third party providers and customers, could be adversely affected. To date, we have not developed a comprehensive plan to address potential impacts of climate change on our operations and there can be no assurance that any such impacts would not have

an adverse effect on our financial condition and results of operations.

Attempts to address GHGs, as well as climate change more generally, have taken the form of local, state, national and international proposals. Broadly speaking, examples include cap-and-trade programs, carbon tax proposals, GHG reporting and tracking programs, and regulations that directly limit GHGs from certain sources.

In the United States, federal proposals are rooted in the EPA's "endangerment finding," that was upheld by the Supreme Court. Simply, EPA has concluded that emissions of carbon dioxide, methane and other GHGs present an endangerment to public health and the environment. For example, the EPA adopted regulations that require Prevention of Significant Deterioration ("PSD") construction under Title V operating permit reviews for GHG emissions from certain large stationary sources that constitute major sources of emissions. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet "best available control technology" standards.

Rules requiring the monitoring and reporting of GHG emissions from designated sources in the United States on an annual basis, including, oil and natural gas production facilities and processing, transmission, storage and distribution facilities, which include certain of our operations, have been adopted. The EPA has expanded the GHG reporting requirements to all segments of the oil and natural gas industry, including gathering and boosting facilities.

Federal agencies also have begun directly regulating emissions of methane from natural gas operations. In 2016, the EPA published New Source Performance Standards ("NSPS"), known as Subpart OOOOa, that require certain facilities to reduce methane gas and volatile organic compound emissions. EPA published amendments to those regulations effective September 15, 2020. However, on January 20, 2021, President Biden issued an Executive Order directing EPA to consider suspending, revising or rescinding the September 15, 2020 amendments and also to consider proposing new regulations governing methane and volatile organic compound emissions from existing oil and gas sector operations.

In November 2016, the Bureau of Land Management ("BLM") published a final rule to reduce methane emissions by regulating venting, flaring, and leaking from oil and natural gas operations on public lands. A federal district court vacated much of that rule in October 2020 and that decision is now subject to an appeal.

Internationally, in April 2016, the United States joined other countries in entering into a non-binding agreement in France for nations to limit their GHG emissions through country-determined reduction goals every five years beginning in 2020 (the "Paris Agreement"). Although the Trump Administration subsequently announced plans to withdraw from the Paris Agreement, on January 20, 2021, President Biden issued an Executive Order providing that he was accepting the Paris Agreement on behalf of the United States.

In addition, recent activism directed at shifting funding away from companies with energy-related assets could result in limitations on certain sources of funding for the energy sector. Ultimately, this could make it more difficult to secure funding for exploration and production or midstream activities.

Epsilon is unable to predict the timing, scope and effect of any currently proposed or future, laws, regulations or treaties regarding climate change and GHG emissions. Any limits on GHG emissions, however, could adversely affect demand for the oil and natural gas that production operators produce, some of whom are our customers, which could thereby reduce demand for our gas gathering services. We are currently unable to calculate or predict the direct and indirect costs of GHG or climate change related laws, regulations and treaties, and accordingly, we cannot assure you that any such

efforts will not have a material impact on our operations, financial condition and results.

Hydraulic Fracturing

Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons. The process involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. The process is typically regulated by state oil and natural gas commissions. However, the EPA has asserted federal regulatory authority over certain hydraulic fracturing practices and has finalized a study of the potential environmental impacts of hydraulic fracturing activities. In 2014, the EPA issued an advanced notice of proposed rulemaking under the Toxic Substances Control Act of 1976 requesting comments related to disclosure for hydraulic fracturing chemicals. The Department of the Interior had released final regulations governing hydraulic fracturing on

14

federal and Native American oil and natural gas leases which require lessees to file for approval of well stimulation work before commencement of operations and require well operators to disclose the trade names and purposes of additives used in the fracturing fluids. However, in December 2017, the Bureau of Land Management published a final rule rescinding the March 26, 2015 rule ("BLM 2015 Rule"), entitled "Natural gas and oil; Hydraulic Fracturing on Federal and Indian Lands." The primary purposes of the BLM 2015 Rule were to ensure that wells were constructed so as to protect water supplies, to ensure environmentally responsible management of fluids displaced by fracturing, and to provide public disclosure of chemicals used in fracturing operations. The net effect of the December 2017 rule making is to return the affected sections of the Code of Federal Regulations to the language that existed before the BLM's 2015 Rule. In addition, legislation has from time to time been introduced, but not adopted, in Congress to provide for additional federal regulation of hydraulic fracturing and to require additional disclosure of the chemicals used in the fracturing process. In addition, some states have adopted, and other states are considering adopting, regulations that could restrict hydraulic fracturing in certain circumstances.

Epsilon is unable to predict the timing, scope and effect of any currently proposed or future laws or regulations regarding hydraulic fracturing in the United States, but there can be no assurance that the direct and indirect costs of such laws and regulations (if enacted) would not materially and adversely affect Epsilon's operations, financial condition and results of operations.

Gathering System Regulation

Regulation of gathering facilities may affect certain aspects of Epsilon's business and the market for Epsilon's services. Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated by agencies of the U.S. federal government, primarily the Federal Energy Regulatory Commission, or the FERC. The FERC regulates interstate natural gas transportation rates, terms and conditions of service, which affects the marketing of natural gas produced by Epsilon, as well as the revenues received for sales of Epsilon's natural gas.

The transportation and sale for resale of natural gas in interstate commerce is regulated primarily under the Natural Gas Act, or the NGA, and by regulations and orders promulgated under the NGA by the FERC. In certain limited circumstances, intrastate transportation, gathering, and wholesale sales of natural gas may also be affected directly or indirectly by laws enacted by the U.S. Congress and by FERC regulations.

Market for Our Common Equity and Related Stockholder Matters

Market Information. Commencing on February 19, 2019, the common shares of the Company trade on the NASDAQ Global Market with the ticker symbol "EPSN." The last reported sales price of our common shares on the NASDAQ Global Market on **March 22, 2023** **March 19, 2024** was **\$5.11** **\$5.01** per share.

Shareholders. We had approximately **675** **975** shareholders of record as of **February 21, 2023** **March 1, 2024**.

Dividends. On February 24, 2022, the Board of Directors approved a quarterly cash dividend of \$0.0625 per common share. With the initiation of a cash dividend, Epsilon intends to pay regular quarterly dividends, with future dividend payments subject to quarterly review and approval by its Board of Directors. Epsilon made aggregate quarterly distributions of \$5.9 million \$5.6 million (\$0.25 per share) during the year ended December 31, 2022 December 31, 2023. The dividend is well supported and the Company intends to maintain it going forward.

14

Securities Authorized for Issuance under Equity Incentive Plans.

The following table sets out the number of common shares available to be issued upon exercise of outstanding options issued and the changes to the options outstanding for the year pursuant to our equity compensation plans and the weighted average exercise price of outstanding options for the periods indicated:

15

Plan Category	Number of Shares to be Issued Upon Exercise or Vesting of Outstanding	Weighted Average Exercise or Vesting Price of Outstanding Options or Shares	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans
	Options or Shares	or Shares	Plans
Equity share options under Amended and Restated 2017 Stock Option Plan	57,500	\$ 5.03	—
Common shares under 2020 Equity Incentive Plan	491,536	\$ 5.59	957,489

	As of December 31, 2022		As of December 31, 2021		As of December 31, 2023		As of December 31, 2022	
	Weighted Number of Options Outstanding	Average Exercise Price	Weighted Number of Options Outstanding	Average Exercise Price	Weighted Number of Options Outstanding	Average Exercise Price	Weighted Number of Options Outstanding	Average Exercise Price
Balance at beginning of period	218,750	\$ 5.28	245,000	\$ 5.27	70,000	\$ 5.03	218,750	\$ 5.28
Exercised	(138,750)	5.38	(16,250)	5.25	(12,500)	5.03	(138,750)	5.38
Expired/Forfeited	(10,000)	5.51	(10,000)	5.50	—	—	(10,000)	5.51
Balance at period-end	70,000	\$ 5.03	218,750	\$ 5.28	57,500	\$ 5.03	70,000	\$ 5.03
Exercisable at period-end	70,000	\$ 5.03	218,750	\$ 5.28	57,500	\$ 5.03	70,000	\$ 5.03

For the years ended December 31, 2022 December 31, 2023 and 2021, 2022, we had no warrants or other common share-related rights outstanding.

At December 31, 2022 December 31, 2023, under the 2020 Equity Incentive Plan (the “2020 Plan”) (See Note 6, 7, “Shareholders’ Equity” of the Notes to the Consolidated Financial Statements), we are authorized to issue 2,000,000 common shares to employees and directors of the Company. As of that date, we had 449,131 1,042,511 common shares granted under the 2020 Plan. No more shares are authorized to be issued under our predecessor plan.

The following table sets out the number of time restricted common shares available to be issued upon vesting over the next three years and the changes during the year pursuant to our share compensation plans and the weighted average market price at date of issue for outstanding shares for the periods indicated:

	As of December 31, 2022		As of December 31, 2021	
	Weighted		Weighted	
	Number of	Average	Number of	Average
	Shares	Grant Date	Shares	Grant Date
	Outstanding	Market Price	Outstanding	Market Price
Balance non-vested Restricted Stock at beginning of period	166,002	\$ 3.96	290,070	\$ 3.41
Granted	289,231	6.28	48,000	5.04
Vested	(157,023)	4.34	(137,668)	3.98
Forfeited	—	—	(34,400)	3.68
Balance non-vested Restricted Stock at end of period	298,210	\$ 6.00	166,002	\$ 3.96

15

	As of December 31, 2023		As of December 31, 2022	
	Weighted		Weighted	
	Number of	Average	Number of	Average
	Shares	Grant Date	Shares	Grant Date
	Outstanding	Market Price	Outstanding	Market Price
Balance non-vested Restricted Stock at beginning of period	298,210	\$ 6.00	166,002	\$ 3.96
Granted	358,546	5.42	289,231	6.28
Vested	(165,220)	5.95	(157,023)	4.34
Forfeited	—	—	—	—
Balance non-vested Restricted Stock at end of period	491,536	\$ 5.59	298,210	\$ 6.00

The following table sets out the number of performance-based common shares available to be issued upon vesting over the next three years and the changes during the year pursuant to our share compensation plans and the weighted average market price at date of issue for outstanding shares for the periods indicated:

	As of December 31, 2022		As of December 31, 2021		As of December 31, 2023		As of December 31, 2022	
	Weighted		Weighted		Weighted		Weighted	
	Number of	Average	Number of	Average	Number of	Average	Number of	Average
	Shares	Grant Date	Shares	Grant Date	Shares	Grant Date	Shares	Grant Date
	Outstanding	Market Price	Outstanding	Market Price	Outstanding	Market Price	Outstanding	Market Price
Balance non-vested Performance Shares at beginning of period	151,500	\$ 3.84	193,167	\$ 3.45	15,833	\$ 3.71	151,500	\$ 3.84
Granted	—	—	20,834	5.04	—	—	—	—
Vested	(135,667)	3.48	(62,501)	4.13	(15,833)	3.71	(135,667)	3.48
Balance non-vested Performance Shares at end of period	15,833	\$ 3.71	151,500	\$ 3.84	—	\$ —	15,833	\$ 3.71

Recent Developments

None. On January 30, 2024, the Company repurchased 248,700 shares at \$4.82 per share (excluding commissions) under the existing share repurchase plan.

ITEM 1A. RISK FACTORS.

You should carefully consider the risks and uncertainties described below, together with all of the other information and risks included in, or incorporated by reference into this report, including our consolidated financial statements and the related notes thereto, before making any financial decisions relating to Epsilon.

Risks Related to Oil and Natural Gas Reserves

Our business is dependent on oil and natural gas prices, and any fluctuations or decreases in such prices could adversely affect our results of operations and financial condition.

Revenues, profitability, liquidity, ability to access capital and future growth prospects are highly dependent on the prices received for oil and natural gas. The prices of these commodities are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile, and this volatility may continue in the future. The volatility of the energy markets generally **make makes** it extremely difficult to predict future oil and natural gas price movements. Also, prices for **crude** oil and prices for natural gas do not necessarily move in tandem. Declines in oil or natural gas prices would not only reduce revenue but could also reduce the amount of oil and natural gas that can be economically produced and therefore potentially lower natural gas and oil reserve quantities. If the oil and natural gas industry continues to experience low prices, we may, among other things, be unable to meet all **of** our financial obligations or make planned expenditures.

Substantial and extended declines in oil and natural gas prices may result in impairments of proved natural gas and oil properties or undeveloped acreage and may materially and adversely affect our future business, financial condition,

cash flows, results of operations, liquidity or ability to finance planned capital expenditures. To the extent commodity prices received from production are insufficient to fund planned capital expenditures, spending will be required to be reduced, assets could be sold or funds may be borrowed to fund any such shortfall.

Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves, the failure of which could result in under-use of capital and in losses.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that we may have at any particular time and the production

from those reserves will decline over time as those reserves are exploited. A future increase in our reserves will depend not only on our ability to explore and develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. We cannot assure you that we will be able to locate and continue to locate satisfactory properties for acquisition or participation. Moreover, if we do identify such acquisitions or participations, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. We cannot assure you that we will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production

17

delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, we are not fully insured against all of these risks, nor are all such risks insurable. Although we maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event we could incur significant costs that could have a material adverse effect upon our financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations, and the loss of the ability to use hydraulic fracturing (see risk factor regarding government legislation). Losses resulting from the occurrence of any of these risks could have a material adverse effect on our future results of operations, liquidity and financial condition.

Our reserve estimates may be inaccurate, and future net cash flows as well as our ability to replace any reserves are uncertain.

There are numerous uncertainties inherent in estimating quantities of oil and natural gas reserves and cash flows to be derived ~~thereof~~, ~~therefrom~~, including many factors beyond our control. The reserve and associated cash flow information set forth herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows ~~thereof~~ ~~therefrom~~ are based upon a number of variable factors and assumptions such as historical oil and natural gas prices, production levels, capital expenditures, operating and development costs, the effects of regulation, the accuracy and reliability of the underlying engineering and geologic data, and the availability of funds; all of which may vary from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected ~~thereof~~ ~~therefrom~~ and prepared by different engineers, or by the same engineers at different times, may vary. Our actual production, revenues, taxes and development and operating expenditures with respect to our reserves will vary from estimates thereof and such variations could be material.

17

In accordance with applicable securities laws, the technical report on our oil and natural gas reserves prepared by DeGolyer and MacNaughton, independent petroleum consultants, as of **December 31, 2022**, **December 31, 2023** and **2021, 2022**, or the DeGolyer Reserve Report, used SEC guideline prices and cost estimates in calculating net cash flows from oil and natural gas reserve quantities included within the report. Actual future net revenue will be affected by other factors such as actual commodity prices, production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Actual production and revenues derived **thereof** **therefrom** will vary from the estimates contained in the DeGolyer Reserve Report, and such variations could be material. The DeGolyer Reserve Report is based in part on the assumed success of activities that we intend to undertake in future years. The oil and natural gas reserves and estimated cash flows to be derived therefrom contained in the DeGolyer Reserve Report will be reduced to the extent that such activities do not achieve the level of success assumed in the DeGolyer Reserve Report.

Our future oil and natural gas reserves, production, and derived cash flows are highly dependent on our successfully acquiring or discovering and developing new reserves. Without the continual addition of new reserves, any of our existing reserves and their production will decline as such reserves are exploited. A future increase in our reserves will depend not only on our ability to develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. There can be no assurance that our future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

18

Risks Related to Stage of Development, Structure and Capital Resources

If there is a sustained economic downturn or recession in the United States or globally, natural gas and oil prices may fall and may become and remain depressed for a long period of time, which may adversely affect our results of operations. We may be unable to obtain additional capital required to implement our business plan, which could restrict our ability to grow.

Operations could also be adversely affected by general economic downturns or limitations on spending. An economic downturn and uncertainty may have a negative impact on our business. During **2022**, **2023** and **2021, 2022**, there was tremendous volatility in prices and available financing for oil and gas projects. There can be no assurance that we will be able to access capital markets to provide funding for future operations that would require additional capital beyond our current existing available capital on terms acceptable to us.

Substantial capital, which may not be available to us in the future, is required to replace and grow reserves.

We anticipate making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If our revenues or reserves decline, we may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements, or for other corporate purposes. If debt or equity financing is available, there is no assurance that it will be on terms acceptable to us. Moreover, future activities may require us to alter our capitalization significantly. Additional capital raised through the issuance of common shares or other securities convertible into common shares may result in a change of control of us and dilution to shareholders. Our inability to access sufficient capital for our operations could have a material adverse effect on our financial condition and results of operations.

Our cash flow from our reserves may not be sufficient to fund our ongoing activities at all times. From time to time, we may require additional financing in order to carry out our oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause us to forfeit our interest in certain properties, miss certain acquisition opportunities, or reduce or terminate our operations. If our revenues from our reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect our ability to expend the necessary capital to replace our reserves or to maintain our production. If our cash flow from operations is not sufficient to satisfy our capital expenditure requirements, there can be no assurance that additional debt, equity financing or the proceeds from the sale of a portion or all of our interest in one or more projects will be available to meet these requirements or available on terms acceptable to us.

The borrowing base under our credit facility may be reduced in light of commodity price declines, which could limit us in the future.

Lower commodity volumes and prices may reduce the amount of our borrowing base under our credit agreement, which is determined at the discretion of our lenders based on the collateral value of our proved reserves that have been mortgaged to the lenders, and is subject to twice yearly redeterminations, as well as special redeterminations described in the credit agreement. Upon a redetermination, if borrowings in excess of the revised borrowing capacity were outstanding, we could be forced to immediately repay a portion of the debt outstanding under our credit agreement. In addition, we may be unable to access the equity or debt capital markets to meet our obligations, including any such debt repayment obligations.

The terms of our revolving credit facility may restrict our operations, particularly our ability to respond to changes or to take certain actions.

The contract that governs our revolving credit facility contains covenants that impose operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability, subject to satisfaction of certain conditions, to incur additional indebtedness, sell assets, enter into transactions with affiliates, and enter into or refrain from entering into hedging contracts.

In addition, the restrictive covenants in our revolving credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under the contract that governs our revolving credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt. In the event our lenders accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness.

Depending on forces outside our control, we may need to allocate our available capital in ways that we did not anticipate.

Because of the volatile nature of the oil and natural gas industry, we regularly review our budgets in light of past results and future opportunities that may become available to us. In addition, our ability to carry out operations may depend upon the decisions of other working interest owners in our properties. Accordingly, while we anticipate that we will have the ability to spend the funds available to us, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent.

We may issue debt to acquire assets or for working capital.

From time to time, we may enter into transactions to acquire assets or shares of other companies. These transactions may be financed partially or wholly with debt, which may increase our debt levels. Depending on future exploration and development plans, we may require additional equity and/or debt financing that may not be available or, if available, may not be available on favorable terms. Neither our articles of incorporation nor our by-laws limit the amount of indebtedness that we may incur. The level of our indebtedness, from time to time, could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Our potential lenders will likely require security over substantially all of our assets. If we become unable to pay our debt service charges or otherwise commit an event of default, such as bankruptcy, these lenders may foreclose on or sell our properties. The proceeds of

any such sale would be applied to satisfy amounts owed to our lenders and other creditors, and only the remainder, if any, would be available to us.

Future equity transactions could result in dilution to existing stockholders.

We may make future acquisitions or enter into financing or other transactions involving the issuance of securities, or the sale of a portion or all of an interest in one or more of our projects, all of which may be dilutive to existing security holders.

19

Competition in the natural gas and oil industry is intense, which may hinder our ability, and the ability of our third-party operating partners, to contract for drilling equipment, and we may not be able to control the scheduling and activities of contracted drilling equipment.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to us and our third-party operating partners and may delay exploration and development activities. Past industry conditions have led to periods of extreme shortages of drilling equipment in certain areas of the United States. On the oil and natural gas properties that we do not operate, we will be dependent on such operators for the timing of activities related to such properties and may be largely unable to direct or control the activities of the operators.

Results of our drilling are uncertain, and we may not be able to generate high returns.

Our operations involve utilizing the latest drilling and completion techniques in order to maximize cumulative recoveries and generate high returns. If drilling results are less than anticipated or we are unable to execute our drilling program because of capital constraints, lease expirations, access to gathering systems and limited takeaway capacity or otherwise, or if crude oil and natural gas prices decline, the return on our investment in these areas may not be as attractive

20

as anticipated. Further, less than anticipated results in developments could incur material write-downs of our oil and natural gas properties and the value of undeveloped acreage could decline in the future.

Extensive government legislation and regulatory initiatives could increase costs and impose burdensome operating restrictions that may cause operational delays.

Hydraulic fracturing, which involves the injection of water, sand and chemicals under pressure into deep rock formations to stimulate crude oil or natural gas production, is often used in the completion of unconventional crude oil and natural gas wells. Currently, hydraulic fracturing is primarily regulated in the United States at the state level, which generally focuses on regulation of well design, pressure testing, and other operating practices.

However, some states and local jurisdictions across the United States, such as the State of New York, have begun adopting more restrictive regulation. Some members of the U.S. Congress and the EPA are studying environmental contamination related to hydraulic fracturing and the impact of fracturing on public health. In March 2015, the U.S. Congress introduced legislation to regulate hydraulic fracturing and require disclosure of the chemicals used in the hydraulic fracturing process, and may implement more stringent regulations in the future. Additionally, some states, such as the State of New York, have adopted, and others are considering, regulations that could restrict hydraulic

fracturing. The ultimate status of such regulation is currently unknown. Any federal or state legislative or regulatory changes with respect to hydraulic fracturing could cause us to incur substantial compliance costs or result in operational delays, and the consequences of any failure to comply by us or our third-party operating partners could have a material adverse effect on our financial condition and results of operations.

Our corporate structure could result in incremental tax burden in certain circumstances.

Epsilon Energy Ltd. is an Alberta company. Epsilon Energy USA Inc. (Ohio corporation) may be a U.S. real property holding corporation (a "USRPHC") for U.S. federal income tax purposes if it is determined, at any time, that the fair market value of its assets that consist of "United States real property interests," as defined in the Internal Revenue Code, and applicable Treasury regulations, constitute at least 50% of the combined fair market value of our real estate property interests and other business assets. If Epsilon Energy USA Inc. were a USRPHC, then Epsilon Energy Ltd.'s investment in Epsilon Energy USA Inc. would be a United States Real Property Interest (USRPI) for US federal tax purposes. As a result, the Foreign Investment in Real Property Tax Act, or "FIRPTA," would require Epsilon Energy Ltd. to pay U.S. federal income tax at the corporate income tax rates on capital gain distributions made by Epsilon Energy USA Inc. to Epsilon Energy Ltd. Distributions made out of earnings and profits are not expected to be subject to the FIRPTA tax but would be subject to U.S. withholding tax.

20

Our operations are currently geographically concentrated and therefore subject to regional economic, regulatory and capacity risks.

Approximately 91% 77% and 93% 88% of our production revenue during fiscal 2022 years 2023 and 2021, 2022, respectively, was derived from our properties natural gas production and gathering system revenues in the state of Pennsylvania. As a result of prolonged weak pricing in Zone 4 of the Tennessee Gas Pipeline and, therefore, a reduced pace of development, Epsilon's management is striving to allocate capital to additional upstream opportunities outside of the Marcellus Shale. More specifically, the Company has allocated capital to the Permian Basin through its investments in New Mexico and Texas. Epsilon's management expects to continue to seek opportunities outside of the Marcellus Shale region of Pennsylvania. in order to provide the Company the flexibility to respond to market conditions by allocating capital across multiple basins and commodities.

As a result of this geographic concentration, we may be disproportionately exposed to the effect of regional supply and demand factors, delays or interruptions of production from wells in this area caused by governmental regulation, processing or transportation capacity constraints, market limitations, weather events or interruption of the processing or transportation of crude oil or natural gas. Additionally, we may be exposed to additional risks, such as changes in field-wide rules and regulations that could cause us to permanently or temporarily shut-in many or all of our wells within the Marcellus Shale.

Delays in business operations may reduce cash flows and subject us to credit risks.

In addition to the usual delays in payments by purchasers of oil and natural gas to us or to the operators, and the delays by operators in remitting payment to us, payments from these parties may be delayed by restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, adjustment for prior periods, or recovery by the operator of expenses incurred in the operation of the properties. In addition, the transition of one operator to another as the result of an operator being bought or sold could cause additional operational delays beyond our control. Any of these delays could reduce the amount of cash flow available for our business in a given period and expose us to additional third-party credit risks.

21

We depend on the successful acquisition, exploration and development of oil and natural gas properties to develop any future reserves and grow production and revenue in the future, and assessments of our assets may be subject to uncertainty.

Acquisitions of oil and natural gas companies and oil and natural gas assets are typically based on engineering and economic assessments made by independent engineers and our own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond our control. In particular, the prices of, and markets for, oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated. Initial assessments of acquisitions may be based on analysis by our internal engineers or reports by a firm of independent engineers that are not the same as the firm that we use for our year-end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm that we use.

We depend on third-party operators and our key personnel, and competition for experienced technical personnel may negatively affect our operations.

Approximately 99% of our oil and natural gas properties are operated by third-party operators. As such, we will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The objectives and strategy of those operators may not always be consistent with ours, and we have a limited ability to exercise influence over, and control the risks associated with, operations of these properties. The failure of an operator of our wells to adequately perform operations, an operator's breach of the applicable agreements or an operator's failure to act in ways that are in our best interests could reduce our production and revenues from our assets or could increase costs or create liability for the operator's failure to properly maintain the well and facilities and to adhere to applicable safety and environmental standards.

In addition to the operator, our success will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on us. We do not have key-person insurance in effect

21

for management. The contributions of these individuals to our immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense, and there can be no assurance that we will be able to continue to attract and retain all personnel necessary for the development and operation of our business. Certain of our directors **and officers** are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Conflicts Committee of our board of directors.

Our leasehold interests are subject to termination or expiration under certain conditions.

Our properties are held in the form of leases and working interests in leases, collectively referred to as "**leasehold interests**." If we or our joint venture partner fails to meet the specific requirement(s) of a particular leasehold interest, the leasehold interest may terminate or expire. There can be no assurance that any of the obligations required to maintain each leasehold interest will be met. The termination or expiration of a particular leasehold interest may have a material adverse effect on our financial condition and results of operations.

We may incur losses as a result of title deficiencies.

Although title reviews will be done according to industry standards before the purchase of most oil and natural gas-producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat our claim, which could result in a reduction in our ownership interest or of the revenue that we receive.

22

We may be exposed to third-party credit risk, and defaults by third parties could adversely affect us.

We are or may be exposed to third-party credit risk through our contractual arrangements with current or future joint venture partners, marketers of our petroleum and natural gas production, derivative counterparties and other parties. In the event such entities fail to meet their contractual obligations to us, such failures could have a material adverse effect on us and our cash flow from operations.

We may not be insured against all of the operating risks to which we are exposed.

Our involvement in the exploration for and development of oil and natural gas properties may result in our becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although before drilling we plan to obtain insurance in accordance with industry standards to address certain of these risks, such insurance may not be available, be price-prohibitive, or contain limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable, or, in certain circumstances, we may elect not to obtain insurance to deal with specific risks because of the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to us. The occurrence of a significant event that we are not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position and our results of operations.

Risks Related to Commodity Prices, Hedging and Marketing

Natural gas and oil prices fluctuate widely, and low prices for an extended period would likely have a material adverse impact effect on our business.

Our revenues, profitability and future growth and the carrying value of our oil and natural gas properties are substantially dependent on prevailing prices of oil and natural gas. Our ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and natural gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond our control. These factors include economic conditions in the United States, the Middle East and elsewhere in the world; the actions of OPEC; governmental regulation; political stability in the Middle East and elsewhere; the foreign supply of oil and natural gas; the price of foreign imports; and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the carrying value of our proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. There can be no assurance that recent commodity prices can be sustained over the life of our operations. There

is substantial risk that commodity prices may decline in the future, although it is not possible to predict the time or extent of such decline.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings that may be available to us are in part determined by our borrowing base. A sustained material decline in prices from historical average prices could reduce our borrowing base, thereby reducing the bank credit available to us, which could require that a portion, or all, of our bank debt be repaid.

Hedging transactions may limit our potential gains or cause us to lose money.

From time to time, we may enter into agreements to receive fixed prices on our oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, we will not benefit from such increases.

We are exposed to risks of loss in the event of nonperformance by our counterparties to our hedging arrangements. Some of our counterparties may be highly leveraged and subject to their own operating and regulatory risks. Despite our analysis, we may experience financial losses in our dealings with these and other parties with whom we enter into

23

transactions as a normal part of our business activities. Any nonpayment or nonperformance by our counterparties could have a material adverse **impact** **effect** on our business, financial condition and results of operations.

Additionally, we may, due to circumstances beyond our control, be put in a position of over-hedging. If this occurs, our revenue could be adversely affected due to the necessity of buying gas at the current market rate in order to fulfill hedging sales obligations.

Market conditions or operation impediments may hinder our access to natural gas and oil markets or delay our production.

The marketability and price of oil and natural gas that we may produce, acquire or discover will be affected by numerous factors beyond our control. Our ability to market our natural gas may depend upon our ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets. This risk is somewhat mitigated by our 35% ownership of a gathering system in the Marcellus Shale in Pennsylvania. We may also be affected by extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, and many other aspects of the oil and natural gas business.

Investor sentiment towards climate change, fossil fuels, and sustainability could adversely affect our business and our share price.

There have been efforts in recent years aimed at the investment community, including investment advisors, sovereign wealth funds, public pension funds, universities and other groups, to promote the divestment of shares of energy companies, as well as to pressure lenders and other financial services companies to limit or curtail activities with energy companies. If these efforts are successful, our stock price and our ability to access capital markets may be negatively impacted.

Members of the investment community are also increasing their focus on sustainability practices, including practices related to GHGs and climate change, in the energy industry. As a result, we may face increasing pressure regarding our sustainability disclosures and practices. Additionally, members of the investment community may screen companies such as ours for sustainability performance before investing in our shares.

23

We are subject to complex laws and regulations, including environmental regulations that can have a material adverse effect on the cost, manner and feasibility of doing business.

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Our operations may require licenses and permits from various governmental authorities. There can be no assurance that we will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at our projects. It is not expected that any of these controls or regulations will affect our operations in a manner materially different than they would affect other oil and natural gas companies of similar size.

Environmental and health and safety risks may adversely affect our business.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills and releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. Although we believe that we are in material compliance with current applicable environmental regulations, we cannot assure you that environmental laws will not result in a curtailment

24

of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, results of operations or prospects.

We must also conduct our operations in accordance with various laws and regulations concerning occupational safety and health. Currently, we do not foresee expending material amounts to comply with these occupational safety and health laws and regulations. However, since such laws and regulations are frequently changed, we are unable to predict the future effect of these laws and regulations.

Risks Related to Cybersecurity

We may be subject to interruptions or failures in our information technology systems.

We rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. Any of these systems are susceptible to outages due to fire, floods, power loss, telecommunications failures, usage errors by employees, computer viruses, cyberattacks or other security breaches or similar events. The failure of any of our information technology systems may cause disruptions in our operations, which could adversely affect our revenue and profitability.

We are subject to cybersecurity risks. A cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.

We depend on information technology systems that we manage, and others that are managed by third-party service and equipment providers, to conduct our day-to-day operations, including critical systems, and these systems are subject to risks associated with cyber incidents or attacks, especially originating from countries such as China, Russia, Iran, and North Korea as broadly reported in the media. Our technology systems and networks, and those of our vendors, suppliers and other business partners, may become the target of cyberattacks or information security breaches. A cyber incident could negatively impact the Company in a number of ways, including but not limited to: (i) remediation costs, such as liability for stolen assets or information and repairs of system damage; (ii) increased cybersecurity protection costs, which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third-party experts and consultants; (iii) lost revenue resulting from downtime, operational disruptions, the unauthorized use of proprietary information or the failure to retain or attract customers following an attack; (iv) litigation and legal risks, including regulatory actions by state and federal governmental authorities and non-U.S. authorities and related investigation costs; (v) increased insurance premiums; (vi) reputational

24

damage that adversely affects customer or investor confidence; (vii) the loss, theft, corruption or unauthorized release of intellectual property, proprietary information, customer and vendor data or other critical data and (viii) damage to the Company's competitiveness, stock price, and long-term stockholder value. Certain cyber incidents, such as surveillance, may remain undetected for an extended period of time. As the sophistication of cyber incidents continues to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. Our insurance coverage for cyberattacks may not be sufficient to cover all the losses we may experience as a result of such cyberattacks.

Risks Related to Internal Controls

For as long as we are an "emerging growth company," we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to some other public companies.

As an "emerging growth company" as defined in the JOBS Act, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. We ~~are~~ **will cease being** an emerging growth company ~~until the earliest of:~~ **not later than December 31, 2024.**

- ~~the last day of the fiscal year during which we have total annual gross revenues of \$1.235 billion or more;~~
- ~~the last day of the fiscal year following the fifth anniversary of the date of our first issuance of common equity securities under an effective Securities Act registration statement (December 31, 2019);~~
- ~~the date on which we have, during the previous 3-year period, issued more than \$1 billion in non-convertible debt; or~~
- ~~the date on which we are deemed a "large accelerated filer" as defined under the federal securities laws.~~

For so long as we remain an "emerging growth company," we will not be required to:

- have an auditor report on our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of ~~2002;~~ **2002 (provided that this exemption will continue to apply for so long as we are a "non-accelerated filer");**
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis);
- submit certain executive compensation matters to shareholder approval (requiring a non-binding shareholder vote to approve golden parachute arrangements in connection with mergers and certain other business combinations, and advisory votes on executive compensation pursuant to the "say on frequency" and "say on pay" provisions under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and
- include detailed compensation discussion and analysis in our filings under the Securities Exchange Act of 1934 (the "Exchange Act") and instead may provide a reduced level of disclosure concerning executive compensation.

In addition, the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period for complying with new or revised accounting standards. We have elected to take advantage of the extended transition period, which allows us to delay the adoption of new or revised accounting standards until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to public companies that comply with new or revised accounting standards.

Because of these exemptions, some investors may find our common shares less attractive, which may result in a less active trading market for our common shares, and our shares price may be more volatile.

If we fail to establish and maintain proper disclosure or internal controls, our ability to produce accurate financial statements and supplemental information or comply with applicable regulations could be impaired.

As we grow, we may be subject to growth-related risks including capacity constraints and pressure on our internal systems and controls. Our ability to manage growth effectively will require us to continue to implement and improve our operational and financial systems

and to train and manage our employee base.

We must maintain effective disclosure controls and procedures. We must also maintain effective internal controls over financial reporting or, at the appropriate time, our independent auditors will be unwilling or unable to provide us with an unqualified report on the effectiveness of our internal controls over financial reporting as required by Section 404(b) of

25

the Sarbanes-Oxley Act, once we become subject to those requirements. If we fail to maintain effective controls, investors may lose confidence in our operating results, the price of our common shares could decline and we may be subject to litigation or regulatory enforcement actions.

Risks Related to Gathering System

Because of the natural decline in production from existing wells, our success depends on the Anchor Shippers' economically developing the remaining Marcellus Shale reserves.

Our natural gas gathering system is dependent upon the level of production from natural gas wells, from which production will naturally decline over time. In order to maintain or increase throughput levels on our gathering system and compression facility, we must continually develop reserves within the Auburn GGS boundary or obtain new supplies external to the Auburn GGS boundary. Developing reserves within the system boundary is the priority as external natural gas volumes have a contractual gathering rate that is 25% of the Anchor Shipper rate. The primary factors affecting our ability to obtain new supplies of natural gas is the level of successful drilling activity from the Anchor Shippers, of which Epsilon is one, as well as our ability to compete for volumes from successful new wells drilled by third parties proximate to our system. If we are not able to obtain new supplies of natural gas to replace the natural decline in volumes from existing wells, throughput on our pipelines and the utilization rates of our compression facility would decline, which could have an adverse effect on our business, results of operations, financial position and cash flows. Although gross throughput at the Auburn CF has declined from 2018-2022, 2018-2023, the share of Anchor Shipper gas has increased.

The gathering rate on the Auburn GGS is subject to a cost-of-service model which could result in a non-competitive gathering rate and reduced throughput.

The gathering rate charged by the Auburn GGS is determined by a cost-of-service model whereby the Anchor Shippers in the system, of which Epsilon is one, dedicate acreage and reserves to the gas gathering system in exchange for the Auburn GGS owners agreeing to a contractual rate of return on invested capital. The term of this arrangement is 15 years commencing in 2012 and expiring in 2026 with an 18% rate of return. Each year, the Auburn GGS historical and forecast throughput, revenue, operating expenses and capital expenditures are entered into the cost-of-service model. The model then computes the new gathering rate that will yield the contractual rate of return to the Auburn GGS owners. In January 2027, the Auburn GGS will transition to a fixed gathering rate.

Under the cost-of-service model, if total throughput on the system is lower than forecasted in the prior year, the gathering rate will increase. The 2022 model forecasts 276 Bcf throughput from 2022-2026 (approximately 69% of current capacity at the 550 psig design suction pressure) which resulted in a \$0.40 gathering rate. If the gathering rate on the Auburn GGS increases, it could result in reduced or deferred development in the Auburn GGS. In one unlikely scenario, if no further development activity beyond work in progress occurs in the Auburn GGS, forecast throughput from 2022-2026 is expected to decline to 205 Bcf (approximately 52% of current capacity at the 550 psig design suction pressure) resulting in a still acceptable \$0.62 gathering rate. Although the Anchor Shippers have dedicated their reserves to the Auburn GGS, they are under no obligation to develop the reserves.

26

Because of the large supply of gas, and limited availability of transportation out of the Marcellus Shale area, our gas is subject to a price differential.

Differential is an energy industry term that refers to the discount or premium received for the sale of a petroleum product at a specific location relative to a nationally recognized sales hub. In the Marcellus Shale, natural gas is significantly discounted to Henry Hub pricing and the size of the differential can be volatile. Many factors influence the size and duration of differentials including local supply / demand imbalances, seasonal fluctuations in demand, transportation availability and cost, as well as the regulatory environment as it pertains to constructing new transportation pipelines. In Northeast Pennsylvania, negative differentials have persisted for many years due to rapid increases in supply as a result of advances in well completion techniques. Despite substantial increases in local demand for natural gas coupled with pipeline expansions, optimizations, and new pipelines that have been brought into service, the natural gas differential in Northeast Pennsylvania remains significant. There is no guarantee that future demand or pipeline transportation projects will eliminate this differential, and it will therefore remain a significant risk to demand for transportation service on the Auburn GGS, and therefore Epsilon's revenues and cash flows.

26

We compete with other operators in our gas gathering energy businesses.

Although the Anchor Shippers have dedicated their acreage and reserves to the Auburn GGS, the Auburn GGS may not be chosen by other producers in these areas to gather and compress the natural gas extracted. We compete with other companies, including co-owners of the Auburn GGS who operate other systems, for any such production from non-Anchor Shippers on the basis of many factors, including but not limited to geographic proximity to the production, costs of connection, available capacity, rates and access to markets. Competition in natural gas gathering is based in large part on existing assets, reputation, efficiency, system reliability, gathering system capacity and pricing arrangements. Our key competitors in the natural gas gathering business include independent gas gatherers and major integrated energy companies. Alternate gathering facilities are available to non-Anchor Shippers we serve, and those producers may also elect to construct proprietary gas gathering systems. A significant increase in competition in the gas gathering industry could have a material adverse effect on our financial position, results of operations and cash flows.

Several of our assets that have been in service for many years may require significant expenditures to maintain them. As a result, our maintenance or repair costs may increase in the future.

Our gathering lines and compression facility are generally long-lived assets, and many of such assets have been in service for many years. The age and condition of our assets could result in increased maintenance or repair expenditures in the future. Any significant increase in these expenditures could adversely affect our gathering rate and competitive position.

We are exposed to the credit risk of our customers and counterparties, and our credit risk management will not be able to completely eliminate such risk.

We are subject to the risk of loss resulting from nonpayment and/or nonperformance by our customers and counterparties in the ordinary course of our business. Generally, our customers are rated investment grade, are otherwise considered creditworthy, or may be required to make prepayments or provide security to satisfy credit concerns. However, our credit procedures and policies cannot completely eliminate customer and counterparty credit risk. Our customers and counterparties include natural gas producers whose creditworthiness may be suddenly and disparately impacted by, among other factors, commodity price volatility, deteriorating energy market conditions, and public and regulatory opposition to energy producing activities. In a low commodity price environment certain of our customers could be negatively impacted, causing them significant economic stress including, in some cases, to file for bankruptcy protection or to renegotiate contracts. To the extent one or more of our key customers commences bankruptcy proceedings, our contracts with the customers may be subject to rejection under applicable provisions of the United States Bankruptcy Code, or may be renegotiated. Further, during any such bankruptcy proceeding, prior to assumption, rejection or renegotiation of such contracts, the bankruptcy court may temporarily authorize the payment of value for our services less than contractually required, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. If we fail to adequately assess the creditworthiness of existing or future customers and counterparties or otherwise do not take

or are unable to take sufficient mitigating actions, including obtaining sufficient collateral, deterioration in their creditworthiness, and any resulting increase in nonpayment and/or nonperformance by them could cause us to write

27

down or write off accounts receivable. Such write-downs or write-offs could negatively affect our operating results in the periods in which they occur, and, if significant, could have a material adverse effect on our business, results of operations, cash flows, and financial condition.

Prices for natural gas in Northeast Pennsylvania are volatile and are subject to significant discounts from pricing at Henry Hub. This discount and volatility has and could continue to adversely affect our financial results, cash flows, access to capital and ability to maintain our existing businesses.

Our revenues, operating results, and future rate of growth depend primarily upon the price of natural gas in Northeast Pennsylvania which is currently volatile and significantly discounted to natural gas at Henry Hub due to insufficient interstate pipeline capacity out of the region. This volatility and discount has adversely impacted reserve development in the past, and could do so again in the future. A slowing pace relative to the cost of service model forecast or complete halt to the development of Anchor Shipper reserves will impact our financial results, cash flows, and access to capital.

27

The financial condition of our natural gas gathering businesses is dependent on the continued availability of natural gas supplies and demand for those supplies in the markets we serve.

Our ability to expand our natural gas gathering business primarily depends on the level of drilling and production by the Anchor Shippers. Production from existing wells with access to our gathering systems will naturally decline over time. The amount of natural gas reserves underlying these existing wells may also be less than anticipated, and the rate at which production from these reserves declines may be greater than anticipated. We do not obtain independent evaluations of the third-party natural gas reserves flowing into our systems and compression facilities. Demand for our services is dependent on the demand for gas in the markets we serve. Alternative fuel sources such as electricity, coal, fuel oils, or nuclear energy could reduce demand for natural gas in our markets and have an adverse effect on our business. A failure to obtain access to sufficient natural gas supplies or a reduction in demand for our services in the markets we serve could result in impairments of our assets and have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Our operations are subject to operational hazards and unforeseen interruptions.

There are operational risks associated with gathering and compression of natural gas, including:

- Hurricanes, tornadoes, floods, extreme weather conditions and other natural disasters;
- Aging infrastructure and mechanical problems;
- Damages to pipelines and pipeline blockages or other pipeline interruptions;
- Uncontrolled releases of natural gas, brine, or industrial chemicals;
- Operator error;
- Damage caused by third-party activity, such as operation of construction equipment;

- Pollution and other environmental risks;
- Fires, explosions, craterings, and blowouts; and
- Terrorist attacks on our facilities or those of other energy companies.

Any of these risks could result in loss of human life, personal injuries, significant damage to property, environmental pollution, impairment of our operations and substantial financial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses, and only at levels we believe

28

to be appropriate. The location of certain segments of our facilities in or near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. In spite of our precautions, an event such as those described above could cause considerable harm to people or property and could have a material adverse effect on our financial condition and results of operations, particularly if the event is not fully covered by insurance. Accidents or other operating risks could further result in loss of service available to our customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

28

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

The Company considers cybersecurity risks as part of our overall risk management process. The management team works closely with our IT consultants and IT auditors to ensure potential risks are mitigated within our systems.

The Company engages a third-party IT consulting firm and conducts an annual IT audit to test our risk management processes.

The Company, together with our IT consultants and auditors, has processes that thoroughly vet third-party service providers, continuously monitoring to ensure compliance with our cybersecurity standards.

The Company has not encountered cybersecurity threats that have materially impacted our business or operations.

Governance

The Company's Board of Directors is aware of the impact of potential cybersecurity threats and stays in close contact with management in case a threat is identified.

The Audit Committee of the Board of Directors is the primary governing body that is tasked with the evaluation and confirmation of the Company's cybersecurity threat mitigation processes. More specifically, they review the Company's annual IT audits and discuss any potential threats in quarterly meetings.

The Chief Financial Officer, Chief Operating Officer, Controller, and Director – Finance are all involved in communications with our IT consultants and auditors. The Chief Financial Officer notifies the Audit Committee and Chief Executive Officer of any cybersecurity threats.

ITEM 2. PROPERTIES.

The information required by Item 2 is contained in "Item 1. ~~Business~~. ~~Business – Properties~~."

ITEM 3. LEGAL PROCEEDINGS.

On March 10, 2021, Epsilon filed a complaint against Chesapeake Appalachia, LLC ("Chesapeake") in the United States District Court for the Middle District of Pennsylvania, Scranton, Pennsylvania ("Middle District"). Epsilon ~~claims~~ ~~claimed~~ that Chesapeake ~~has had~~ breached a settlement agreement and several operating agreements ("JOAs") to which Epsilon and Chesapeake are parties. Epsilon ~~asserts~~ ~~asserted~~ that Chesapeake ~~has had~~ failed to cooperate with Epsilon's efforts to develop resources in the Auburn Development, located in ~~Northeast North-Central~~ Pennsylvania, as required under both the settlement agreement and JOAs.

Epsilon requested a preliminary injunction but was unsuccessful in obtaining that injunction. Epsilon filed a motion to amend its original Complaint. Chesapeake opposed. The Court ruled in Epsilon's favor and allowed Epsilon's amendment. Chesapeake moved to dismiss the amended Complaint. The Court granted the motion to dismiss on a narrow issue without prejudice to Epsilon's right to file a new lawsuit based on new proposals made after the Court's decision. Epsilon filed a motion for reconsideration of that decision, but the court denied the motion for reconsideration on January 18, 2022.

Epsilon filed a notice of appeal on February 15, 2022 challenging both the ~~motion to dismiss and motion for reconsideration decisions~~. Chesapeake filed a cross-appeal on March 1, 2022. A briefing schedule was set and briefing closed October 14, 2022. Oral argument was held in January 2023. A decision on the appeal is not expected until mid-2023.

Epsilon re-filed a complaint against Chesapeake ~~District Court's rulings~~ in the Middle District on May 9, 2022. Epsilon generally asserts similar claims as in the previous suit, pursuing declaratory judgment claims regarding Chesapeake's obligation to Epsilon to cooperate with Epsilon's efforts in the Auburn Development and regarding Chesapeake's obstruction of Epsilon's efforts with the Pennsylvania Department of Environmental Protection permitting process but not based on specific well proposals. Chesapeake filed a motion to stay pending a decision ~~on case~~. Following the Third ~~Circuit~~ appeal, which ~~Circuit's~~ ruling to remand the case back to District court, Epsilon sought and was ~~granted~~. The matter is stayed pending ~~granted~~ a ~~decision from dismissal~~ of the ~~Third Circuit~~ case without prejudice in September 2023.

29

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

29

30

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The information required by Item 201 of Regulation S-K is contained in "Item 1. Business."

On April 6, 2022 July 1, 2023, our Board made grants to our CEO and December 31, 2022 CFO, entitling them to receive an aggregate of 79,589 common shares which shall not be issued to the award recipients unless certain time or performance based vesting criteria, as applicable, are met, in which case the vesting will occur in three equal parts on the succeeding periods ending on July 1. The awards were made under the 2020 Equity Incentive plan in accordance with Rule 701 promulgated under the Securities Act.

On July 3, 2023, our Board made grants to our directors and employees, entitling them to receive an aggregate of 89,925 64,975 common shares and 43,096 common shares, respectively, which shall not be issued to the award recipients unless certain time or performance based vesting criteria, as applicable, are met, in which case the vesting will occur in three equal parts on the succeeding periods ending on December 31. The awards were made under the 2020 Equity Incentive plan in accordance with Rule 701 promulgated under the Securities Act.

On July 1, 2022 December 31, 2023, our Board made grants to a director of 18,000 common shares, our management and to our new CEO and CFO, employees entitling them to receive an aggregate of 138,210 213,982 common shares which shall not be issued to the award recipients unless certain time or performance based vesting criteria, as applicable, are met, in which case the vesting will occur in three equal parts over a three-year and four-year period, respectively, on the succeeding periods ending on December 31. The awards were made under the 2020 Equity Incentive plan in accordance with Rule 701 promulgated under the Securities Act.

Commencing on March 8, 2022 On March 9, 2023, the Company entered into Board of Directors authorized a new share repurchase program of up to 2,292,644 common shares, representing 10% of the outstanding common shares of Epsilon at that time, for an aggregate purchase price of not more than US \$15.0 million. The program is pursuant to a normal course issuer bid and will be conducted in accordance with Rule 10b-18 promulgated under the Exchange Act. The Company was authorized to repurchase up to 1,183,410 of its outstanding common shares, representing 5% of the outstanding common shares of the Company as of February 24, 2022. The program ended commenced on March 7, 2023 March 27, 2023 and will end on March 26, 2024.

The Company funded the purchases out of available cash and did not incur debt to fund the share repurchase program. The shares are accounted for as treasury shares until such a time as they are retired.

The following table provides information with respect to the common share purchases made by the Company during the three months ended December 31, 2023.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
December 2023	70,874	\$ 5.06		
Total	70,874	\$ 5.06	968,149	1,324,495

ITEM 6. [RESERVED.]

ITEM 7. 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. This section should be read in conjunction with the audited consolidated financial statements as of **December 31, 2022**, **December 31, 2023** and **2021**, **2022** and for the years then ended together with accompanying notes.

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 area areas of operation is Pennsylvania**, 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 **December 31, 2022**, **December 31, 2023** our total estimated net proved reserves were **90,040**, **65,916** MMcf of natural gas reserves, **491,226**, **383,174** Bbls of NGL reserves, and **211,059**, **341,286** Bbls of oil and **other liquids**, condensate, and we held leasehold rights to approximately **75,954**, **84,684** gross (**13,625**, **15,463** net) acres. We have natural gas production from our non-operated wells in Pennsylvania, and natural gas, oil and other **liquid liquids** production from our **operated and** non-operated wells in **the Permian Basin and Oklahoma**.

We are committed to disciplined capital allocation which could include shareholder returns in the form of dividends and/or share buybacks. We **seek 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.

To date, Historically, our investments have been focused on **our position in the prolific Marcellus Shale** unconventional reservoir in Pennsylvania ("PA"). Our PA assets are supported by our 35% ownership in the Auburn GGS. **Over the last two years, we have also been active in our position in the NW Stack area of Oklahoma ("OK")**. We have a substantial remaining drillable location inventory within our existing **leasehold leasehold**.

On May 9, 2023, Epsilon acquired a 10% interest in **PA and OK**, two wellbores located in Eddy County, New Mexico from a private operator. The wells are currently in production. Total capital expenditure (net to Epsilon) was \$2.2 million.

On May 16, 2023, Epsilon acquired a 25% working interest in 1,297 gross acres on the Central Basin Platform in Ector County, Texas from a private operator. The Company **also seeks** participated in the drilling and completion of 2 gross (0.5 net) wells which were put on production in October 2023. Total capital expenditures (net to **identify Epsilon**) to date are \$9.3 million, including leasehold and drilling and completion costs.

On June 20, 2023, Epsilon acquired a 25% working interest in 11,067 gross acres on the Central Basin Platform in Ector County, Texas from a private operator. Total leasehold capital expenditures (net to Epsilon) to date are \$6.2 million.

We continue to evaluate new opportunities in **numerous** onshore North American natural gas and oil basins. **In the second half of 2022, we evaluated several potential investments outside our existing projects, with a focus on the Northeastern United States. We expect to expand our area of interest in 2023 to selectively consider potential investments in other North American gas and oil basins.**

During 2022, 2023, we realized net income of \$35.4 \$7.9 million as compared to net income of \$11.6 \$35.4 million for 2021, 2022.

At December 31, 2022 December 31, 2023, our total estimated net proved developed reserves were 80,795 50,681 MMcf, an increase a decrease of 10% 37% from December 31, 2021 December 31, 2022. The increase decrease is mainly attributable to revisions to previous estimates and transfers from proved undeveloped, related to commodity pricing.

At December 31, 2022 December 31, 2023, our total estimated net proved reserves were 94,254 70,262 MMcf, a 20% 25% decrease from December 31, 2021 December 31, 2022. The primarily price-related decrease in our total proved developed reserves is due to a change was partially offset by increases in our previously adopted development plan, primarily attributable to estimated proved undeveloped reserves in PA and OK that shifted into the probable reserve category under SEC guidelines due to timing, from wells currently in progress. As a non-operating working interest owner, we often do not have direct control or visibility over the pace of investment in our assets by the operator. We anticipate reevaluating these reserves once we must have line of sight confirmation from the operator on near-term development timing, to designate an undeveloped well location as proved.

Our standardized measure of discounted future net cash flows as of December 31, 2022 December 31, 2023 and 2021 2022 was \$145.8 \$33.0 million and \$77.7 \$145.8 million, respectively. This measure of discounted future net cash flows does not include any estimate for future cash flows generated by our gathering system assets.

Results of Operations

The following review of operations for the periods presented below should be read in conjunction with our consolidated financial statements and the notes thereto.

Revenues

During the year ended December 31, 2022, revenues increased \$27.6 million, or 65%, to \$70.0 million from \$42.4 million during the year ended December 31, 2021 due primarily to increased prices.

31

32

Revenues

During the year ended December 31, 2023, revenues decreased \$39.3 million, or 56%, to \$30.7 million from \$70.0 million during the year ended December 31, 2022 primarily due to lower realized natural gas prices in PA (down 71%), partially offset by new oil revenues from the Permian Basin.

Revenue and volume statistics for the years ended December 31, 2022 December 31, 2023 and 2021 2022 were as follows:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Revenues				
Pennsylvania				
Natural gas revenue	\$ 53,759,354	\$ 29,909,651	\$13,733,052	\$53,759,354
Volume (MMcf)	9,026	9,830	7,906	9,026
Avg. Price (\$/Mcf)	\$ 5.96	\$ 3.04	\$ 1.74	\$ 5.96
Gathering system revenue	\$ 8,085,512	\$ 7,865,825		
Gathering system revenue (net of elimination)			\$ 9,790,531	\$ 8,085,512
Total PA Revenues	\$ 61,844,866	\$ 37,775,476	\$23,523,583	\$61,844,866
Permian Basin				

Natural gas revenue			\$ 117,112	\$ —
Volume (MMcf)			80	—
Avg. Price (\$/Mcf)			\$ 1.47	\$ —
Natural gas liquids revenue			\$ 353,612	\$ —
Volume (MBOE)			17.9	—
Avg. Price (\$/Bbl)			\$ 19.78	\$ —
Oil and condensate revenue			\$ 3,501,098	\$ —
Volume (MBbl)			44.5	—
Avg. Price (\$/Bbl)			\$ 78.71	\$ —
Total Permian Basin Revenues			\$ 3,971,822	\$ —
Oklahoma				
Natural gas revenue	\$ 3,189,380	\$ 1,798,534	\$ 1,014,050	\$ 3,189,380
Volume (MMcf)	477	403	354	477
Avg. Price (\$/Mcf)	\$ 6.68	\$ 4.46	\$ 2.87	\$ 6.68
Natural liquids revenue	\$ 1,733,129	\$ 1,053,486		
Volume (MBO)	44.1	29.3		
Natural gas liquids revenue			\$ 630,806	\$ 1,733,129
Volume (MBOE)			21.1	44.1
Avg. Price (\$/Bbl)	\$ 39.31	\$ 35.98	\$ 29.96	\$ 39.31
Oil and condensate revenue	\$ 3,195,334	\$ 1,776,496	\$ 1,589,491	\$ 3,195,334
Volume (MBO)	32.2	25.1		
Volume (MBbl)			20.8	32.2
Avg. Price (\$/Bbl)	\$ 99.24	\$ 70.70	\$ 76.37	\$ 99.24
Total OK Revenues	\$ 8,117,843	\$ 4,628,516	\$ 3,234,347	\$ 8,117,843
Total Revenues	\$ 69,962,709	\$ 42,403,992	\$30,729,752	\$69,962,709

Upstream natural gas revenue for the year ended December 31, 2022 increased December 31, 2023 decreased by \$25.2 million \$42.1 million, or 80% 74%, over 2021. An increase from 2022. A decrease of \$27.5 million \$35.1 million was due to higher lower realized natural gas prices partially offset by and a reduction of \$2.3 million \$7.0 million was due to lower produced volumes being produced due to natural decline of the wells.

Upstream natural gas liquids revenue for the year ended December 31, 2022 increased December 31, 2023 decreased by \$0.7 million, or 65% 43% from 2022. A decrease of \$0.5 million was due to lower natural gas liquids prices and a reduction of \$0.2 million was due to lower produced volumes.

Upstream oil and condensate revenue for the year ended December 31, 2023 increased by \$1.9 million, or 59% over 2021. This 2022. An increase of \$3.3 million was a result of due to increased production from new wells in addition the Permian Basin offset by a reduction of \$1.4 million due to higher NGL prices.

Upstream oil and other liquids revenue for the year ended December 31, 2022 increased by \$1.4 million, or 80% over 2021. This was a result of increased production from new wells in addition to higher lower oil prices.

Gathering system revenue for the year ended December 31, 2022 December 31, 2023 increased by \$0.2 million \$1.7 million, or 3% 21% over 2021, 2022. This was the result of increased anchor shipper volumes, which pay the full gathering rate, increasing from 69% to 78% of total

throughput in addition to a one-time compressor fee adjustment as a result of the operator's internal audit of the gathering system. Revenues derived from transporting and compressing our production, which have been eliminated from gathering system revenues, amounted to \$1.5 million \$1.4 million and \$1.6 million \$1.5 million, respectively, for the years ended December 31, 2022 December 31, 2023 and 2021., 2022.

Operating Costs

The following table presents total cost and cost per unit of production (Mcf), including ad valorem, severance, and production taxes for the years ended **December 31, 2022**, **December 31, 2023** and **2021**, **2022**:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Lease operating costs	\$ 7,128,631	\$ 6,303,055		
Lease operating costs (net of elimination)			\$6,405,281	\$7,128,631
Gathering system operating costs	2,287,763	2,321,329	2,459,694	2,287,763
	\$ 9,416,394	\$ 8,624,384	\$8,864,975	\$9,416,394
Upstream operating costs—Total \$/Mcf	0.72	0.60	0.71	0.72
Gathering system operating costs \$/Mcf	0.15	0.30	0.15	0.15

32

Operating costs include the effects of elimination entries to remove the gathering fees paid to Epsilon's ownership in the gathering system. **Prior to the year ended December 31, 2022, the gathering fees were netted from the gathering system operating costs. For the year ended December 31, 2022, the Company determined that it would be more appropriate to net the \$1.5 million fees from the upstream lease operating costs. To be consistent with the current presentation, the prior year elimination of \$1.6 million has been reclassified as well.**

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 year ended **December 31, 2022**, **December 31, 2023**, upstream operating costs **increased** **decreased** by **\$0.8 million** **\$0.7 million**, or **13.1%** **10.1%** from the same period in **2021**. **The increase was 2022. Operating costs in 2022 were higher** due to **higher produced volumes and** extraordinary plugging and abandonment costs related to atypical wellbore conditions in two older vintage wells in Pennsylvania, which is not representative of the other wells.

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 year ended **December 31, 2022**, **December 31, 2023**, gathering system operating costs **decreased** **increased** by **\$0.03 million** **\$0.2 million**, or **1.4%** **7.5%** from the same period in **2021**, **2022**.

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

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Depletion, depreciation, amortization and accretion	\$ 6,438,511	\$ 6,627,016	\$7,685,084	\$6,438,511

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. **At this time, the Company has only minimal leasehold acquisition costs.** For natural gas and oil development and gathering system costs, the reserve base used to calculate depletion and depreciation is proved developed reserves. A reserve report is prepared as of December 31, each year.

Depreciation expense includes amounts pertaining to our office furniture and fixtures, leasehold improvements **and** 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.

During the year ended **December 31, 2022** **December 31, 2023**, DD&A expense **was generally consistent** **increased by \$1.2 million, or 19%**, compared to the same period in **2021**, decreasing by \$0.2 million, or 3%.

Impairment

	Year ended December 31,	
	2022	2021
Impairment	\$ —	\$ 153,058

We perform **2022**. This increase was 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, 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 **result** of the carrying amount of **lower reserves** causing an increased depletion rate in **addition to four new producing wells in** the natural gas properties to their estimated fair values is required. Additionally, GAAP requires that 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. **Permian Basin**.

33

34

For the year ended December 31, 2022, no impairment was recorded. For the year ended December 31, 2021, the Company recognized dry hole costs of \$0.15 million.

Gain (Loss) **Loss (gain)** on Sale of Properties Assets

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Gain on sale of assets	\$ 221,642	\$ 484,902		
Loss (gain) on sale of assets			\$1,449,871	\$ (221,642)

For the year ended **December 31, 2022** **December 31, 2023**, the Company **recorded** had a loss on sale of assets of \$1.4 million, compared to a gain **for** of \$0.2 million in 2022 due to the assets sold in 2023 having a **well-bore only** larger net book value than the asset **sale** sold in 2022. Epsilon sold two Oklahoma assets in April 2023 and conveyance and partial release of oil and gas leases **one** Oklahoma asset in Oklahoma. For the year ended December 31, 2021, the Company recorded a gain on the sale of the shallow rights leases and wells in Oklahoma. **April 2022**.

General and Administrative ("G&A")

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
General and administrative	\$ 7,346,438	\$ 6,831,816	\$7,311,496	\$7,346,438

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 stock options granted and restricted shares of stock granted and the related non-cash compensation.

G&A expenses **increased** **were generally consistent** compared to the same period in 2022, decreasing by **\$0.5** \$0.03 million, or **8%**, during 0%.

Interest Income

	Year ended December 31,	
	2023	2022
Interest income	\$1,673,241	\$ 452,877

During the year ended December 31, 2022 December 31, 2023, interest income increased by \$1.2 million, or 269%, from 2021. Increased compensation costs the same period in 2022. This increase was primarily due to the utilization of \$1.3 million associated additional financial instruments with the management transition was offset by a decrease higher prevailing interest rates in legal fees by \$0.8 million, 2023.

Interest Expense

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Interest expense	\$ 50,782	\$ 101,382	\$ 80,379	\$ 50,782

Interest expense relates to the interest and commitment fees paid on the revolving line of credit.

Interest expense decreased increased by \$0.05 million \$0.03 million, or 50% 58%, during the year ended December 31, 2022 December 31, 2023 from 2021, 2022. The decrease increase is due to the reduction in the borrowing base front-end fees on our line of new credit facility put in place during this time, 2023.

Net gain (loss) on commodity contracts

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Gain (loss) on derivative contracts	\$ 236,077	\$ (4,482,909)		
Gain on derivative contracts			\$3,130,055	\$236,077

During the years year ended December 31, 2022 and 2021, we entered into December 31, 2023, the Company had NYMEX Henry Hub ("HH") Natural Gas Futures swaps Dominion and Tennessee Gas Pipeline Zone 4 basis swaps, and two-way costless collar swap derivative contracts for the purpose of hedging our a portion of its physical natural gas sales revenue. During the year ended December 31, 2022, the Company had NYMEX HH two-way collars and Tennessee Gas Pipeline Zone 4 basis swap derivative contracts for the same hedging purpose. The amounts recorded represent the fair value changes on our derivative instruments during the year. For the year ended December 31, 2023, the Company received net cash settlements of \$3,251,890. For the year ended December 31, 2022, the Company paid net cash settlements of \$1,225,837. For the year ended December 31, 2021, the Company paid net cash settlements of \$4,243,085.

In April 2022, the Company added NYMEX HH collars totaling 1.2 Bcf and basis swaps totaling 1.2 Bcf. NYMEX HH prices generally increased throughout the first three quarters of 2022 resulting in realized losses for the year ended December 31, 2022.

34

35

In February 2021, the Company added Henry Hub collars totaling 3.96 Bcf and basis swaps totaling 0.31 Bcf. In August 2021, the Company added Henry Hub swaps totaling 0.46 Bcf and basis swaps totaling 1.10 Bcf. NYMEX HH prices generally increased throughout 2021 resulting in large realized losses for the year ended December 31, 2021.

At December 31, 2022, the Company had outstanding NYMEX HH swaps totaling 1.07 Bcf with a trade strike price of \$5.212 and Tennessee Z4 basis swaps totaling 1.07 Bcf with a trade strike price of (\$1.25) to hedge a portion of expected volumes for the contract period of April 2023 to October 2023.

Other

In September 2023, the Company added NYMEX HH swaps totaling 0.38 Bcf with a strike price of \$3.315 and Tennessee Z4 basis swaps totaling 0.38 Bcf with a strike price of (\$0.73) to hedge a portion of the expected volumes for the contract period of November 2023 to March 2024. The Company also added NYMEX HH swaps totaling 1.07 Bcf with a strike price of \$3.1975 and Tennessee Z4 basis swaps totaling 1.07 Bcf with a strike price of (\$1.145) to hedge a portion of the expected volumes for the contract period of April 2024 to October 2024.

In October 2023, the Company added NYMEX HH swaps totaling 0.38 Bcf with a strike price of \$3.455 and Tennessee Z4 basis swaps totaling 0.38 Bcf with a strike price of (\$0.81) to hedge a portion of the expected volumes for the contract period of November 2023 to March 2024. The Company also added NYMEX HH swaps totaling 0.535 Bcf with a strike price of \$3.29 and Tennessee Z4 basis swaps totaling 0.535 Bcf with a strike price of (\$1.20) to hedge a portion of the expected volumes for the contract period of April 2024 to October 2024.

At December 31, 2023, the Company had outstanding NYMEX HH swaps totaling 1.905 Bcf with a weighted average strike price of \$3.25 and Tennessee Z4 basis swaps totaling 1.905 Bcf with a weighted average strike price of (\$1.10) to hedge a portion of expected volumes for the contract period of January 2024 to October 2024.

Income (Expense) Tax Expense

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Interest income and other income	\$ 353,408	\$ 39,995		
Income tax expense			\$3,200,447	\$12,157,487

During the year ended December 31, 2022 December 31, 2023, interest income increased tax expense decreased by \$0.4 million \$9.0 million, or 877% 74%, during the year ended December 31, 2022 from the same period in 2021, 2022. This increase decrease was primarily due to the utilization a decrease in taxable income as a result of additional financial instruments with higher prevailing interest rates in 2022. lower realized commodity prices.

Net Income Compared to Adjusted EBITDA

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Net income	\$ 35,354,679	\$ 11,627,517	\$ 6,945,153	\$35,354,679
Add Back:				
Net interest expense	(402,095)	62,517		
Interest (income) expense, net			(1,592,862)	(402,095)
Income tax expense	12,157,487	4,440,508	3,200,447	12,157,487
Depreciation, depletion, amortization, and accretion	6,438,511	6,627,016	7,685,084	6,438,511
Impairment expense	—	153,058		
Stock based compensation expense	1,021,026	956,084	1,018,262	1,021,026
(Gain) loss on derivative contracts net of cash received or paid on settlement	(1,461,914)	239,824		
Gain (loss) on sale of assets			1,449,871	(221,642)
Loss (gain) on derivative contracts net of cash received or paid on settlement			121,835	(1,461,914)
Foreign currency translation loss	(845)	1,454	(278)	(850)
Adjusted EBITDA	\$ 53,106,849	\$ 24,107,978	\$18,827,512	\$52,885,202

We define 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 (7) (8) other income. Adjusted EBITDA is not a measure of financial performance as determined under U.S. GAAP and should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with U.S. GAAP or as a measure of profitability or liquidity.

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. We have included Adjusted EBITDA as a supplemental disclosure because its management believes that EBITDA provides useful information regarding our 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 us 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 above sets forth a reconciliation of net income to Adjusted EBITDA, which is the most directly comparable measure of financial performance calculated under U.S. GAAP and should be reviewed carefully.

Capital Resources and Liquidity

Cash Flow

The primary source of cash during the years ended December 31, 2022, December 31, 2023 and 2021, 2022 was funds generated from operations. For the years ended December 31, 2022, December 31, 2023 the primary uses of cash were the acquisition and 2021, development of upstream properties, investment in U.S. Treasury bills, the repurchase of shares of common stock, and the distribution of dividends. For the year ended December 31, 2022, cash was primarily used for operations, as well as the development of natural gas and oil upstream properties, the buyback repurchase of common shares through our share repurchase program, stock, and the pre-payment distribution of income taxes. In 2022, we began paying dividends quarterly, which totaled \$5.9 million dividends.

At December 31, 2022, December 31, 2023, we had a working capital surplus of \$51.0 \$33.2 million, an increase a decrease of \$26.9 \$16.0 million from the \$24.1 \$49.2 million surplus at December 31, 2021, December 31, 2022. The surplus increased decreased from December 31, 2021 primarily December 31, 2022 due to the increase in realized prices during 2022, lower cash and short term investment balances. We anticipate that our current cash balance, short term investments, available borrowings, and cash flows from operations and available sources of liquidity to be sufficient to meet our cash requirements requirements for at least the next twelve months.

Year ended December 31, 2022, December 31, 2023 compared to 2021, 2022

During the year ended December 31, 2022, December 31, 2023, \$38.0 \$17.5 million was provided by our operating activities, compared to \$20.0 million \$38.0 million in 2021, 2022, a \$18.0 \$20.5 million, or 90% 54%, increase decrease. The increase decrease was mainly due to the increase decrease in realized prices resulting in increased decreased revenue.

We The company used \$7.9 \$37.7 million for investing activities during the year ended December 31, 2022, December 31, 2023, compared to \$4.4 million \$7.9 million in 2021, 2022, a \$3.4 million \$29.8 million, or 77% 379%, increase. This The Company made a \$17.9 million investment in U.S. Treasury bills and \$19.8 million in capital investment in the upstream properties.

During the year ended December 31, 2023, \$11.7 million of cash used for financing activity was spent primarily on upstream development costs in Pennsylvania related to the repurchase of our common shares and Oklahoma.

the payment of quarterly dividends. During the year ended December 31, 2022, \$12.0 million of cash used for financing activity was primarily related to the repurchase of our common shares and the payment of quarterly dividends. This was offset by \$0.7 million of proceeds

from the exercise of stock options. During the year ended December 31, 2021, \$2.3 million of cash was used for financing activity, which was primarily related to the repurchase of our common shares.

Credit Agreement

The Company has closed a senior secured reserve based revolving credit facility which includes a total on June 28, 2023 with Frost Bank as issuing bank and sole lender. The new facility replaced the Company's previous facility. The initial commitment of up to \$100 million. The effective and borrowing base is \$30 million, which is \$35 million (redetermined as of December 6, 2023), supported by the Company's upstream assets in Pennsylvania and subject to semi-annual redetermination. redeterminations with a maturity date of the earlier of June 28, 2027. 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). There are currently no borrowings under the facility. If we decide to access

Under the terms of the facility, depending on the level of borrowing, we might need to increase our hedging activity. Borrowings from the Facility may be used for the acquisition and development of oil and gas properties, investments in cash flow generating assets complimentary Company must adhere to the production of oil and gas, and for letters of credit and other general corporate purposes. Upon each advance, interest is charged at the highest of a) the Prime Rate, or b) the sum of the Federal Funds Rate plus 0.5%, plus an applicable margin (0.25%-1.25%, based on percentage utilization on the facility). following financial covenants:

The facility matures on March 1, 2024.

Effective April 6, 2021, the agreement was amended to extend the maturity date to March 1, 2024. In addition, the agreement was amended to include a *Benchmark Replacement* definition and transition plan to be used at such time when the LIBOR rate is discontinued.

On February 10, 2023, Epsilon Energy USA entered into the Ninth Amendment of the Credit Agreement. The borrowing base was increased to \$30 million. LIBOR was removed as a reference option in the calculation of interest. Hedging requirements were amended to be between 0%-62.5% of the 24-month projected production volumes, based on percentage utilization on the facility. Also, cash distributions to the parent company (Epsilon Energy Ltd.) were allowed

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

36

37

if the facility is < 80% utilized and the leverage ratio (total debt / income adjusted for interest, taxes and non-cash amounts) is less than 2.

The bank has a first priority security interest in the tangible and intangible assets of Epsilon Energy USA, Inc. to secure any outstanding amounts under the agreement. Under the terms of the agreement, the Company must maintain the following covenants:

- Interest coverage ratio greater than 3 (income adjusted for interest, taxes and non-cash amounts / cash interest expense)
- Current ratio greater than 1 (current assets / current liabilities)
- Leverage ratio of less than 3.5 2.5 to 1.0 (total debt / income adjusted for interest, taxes and non-cash amounts)

We were in compliance with Additionally, if the financial covenants 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 agreement as of December 31, 2022.

anticipated production from PDP reserves for a rolling 24 month period.

Repurchase Transactions

Commencing on March 8, 2022 On March 9, 2023, we implemented the Board of Directors authorized a plan new share repurchase program of up to repurchase 2,292,644 common shares, representing 10% of our issued and outstanding common shares, for an aggregate purchase price of not more than US \$15.0 million. The program is pursuant to a normal course issuer bid and to return capital to our shareholders. We used cash will be conducted in accordance with Rule 10b-18 under the Exchange Act. The program commenced on hand to fund these repurchases. March 27, 2023, and will end on March 26, 2024, unless the maximum amount of common shares is purchased before

then or Epsilon provides earlier notice of termination. During the year ended December 31, 2023, we repurchased 968,149 common shares and spent \$4,940,295 at an average price of \$5.08 per share (excluding commissions) under the new plan.

The previous share repurchase program commenced on March 8, 2022. During the year ended December 31, 2022, we repurchased 982,500 common shares of the maximum of 1,183,410 authorized for repurchase and spent \$6,234,879 under the plan. The repurchased stock had an average price of \$6.32 per share (excluding commissions) and was subsequently retired during the year ended December 31, 2022.

In 2023, we repurchased and retired 190,700 common shares and spent \$1,115,306 at an average price of \$5.82 per share (excluding commissions) before the plan terminated on March 7, 2023.

Commencing on January 1, 2021, we implemented a plan to repurchase our issued and outstanding common shares. The plan terminated on December 31, 2021. We used cash on hand to fund these repurchases. During In 2023, the year ended December 31, 2021, we Company repurchased 534,015 common 1,158,849 shares of the maximum of 1,193,000 authorized for repurchase and spent \$2,423,007 under the plan. The repurchased stock had \$6,055,601 at an average price of \$4.51 \$5.20 per share (excluding commissions) and was subsequently retired during under the year ended December 31, 2022, two consecutive repurchase programs.

On March 9, 2023 March 19, 2024, the Board of Directors authorized a new share repurchase program of up to 2,292,644 2,191,320 common shares, representing 10% of the current outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$15.0 million \$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 will commence on March 27, 2023 March 27, 2024 and end on March 26, 2024 March 26, 2025, unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination.

Derivative Transactions

The Company has entered into hedging arrangements to reduce the impact of natural gas price volatility on operations. By removing the price volatility from a significant portion of natural gas production, the potential effects of changing prices on operating cash flows have been 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 December 31, 2022 December 31, 2023, Epsilon's outstanding natural gas commodity swap contracts consisted of the following:

37

Derivative Type	Weighted Average		
	Volume	Price (\$/MMbtu)	Fair Value of Asset
	(MMbtu)	Swaps	December 31, 2023
2024			
NYMEX Henry Hub swap	1,905,000	\$ 3.25	\$ 1,353,668
Tennessee Z4 basis swap	1,905,000	\$ (1.10)	\$ (253,413)
	3,810,000		\$ 1,100,255

Derivative Type	Volume (MMbtu)	Weighted Average Price (\$/MMbtu)			Fair Value of Asset December 31, 2022
		Swaps	Basis		
			Differential		
2023					
NYMEX Henry Hub swap	1,070,000	\$ 5.21	\$ —	\$	1,219,865
Tennessee Z4 basis swap	1,070,000	\$ —	\$ (1.25)		2,225
	2,140,000			\$	1,222,090

Contractual Obligations

We enter into commitments for capital expenditures in advance of the expenditures being made. At a given point in time, it is estimated that we have committed to capital expenditures equal to approximately one quarter of our capital

38

budget by means of giving the necessary authorizations to the asset operator to incur the expenditures in a future period. Current commitments amounted to approximately \$0.8 million, all of which we expect to incur in 2023.

Based on current natural gas prices and anticipated levels of production, we believe that the estimated net cash generated from operations, together with cash on hand and amounts available under our credit agreement, will be adequate to meet liquidity needs for the next 12 months and beyond, including satisfying our financial obligations and funding our operating and development activities.

Off Balance Sheet Arrangements

As of December 31, 2022 and 2021, we had no off-balance sheet arrangements. December 31, 2023, our commitments for capital expenditures were nil.

Summary of Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements and accompany accompanying notes, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, and SEC rules which require management to make estimates and assumptions about future events that affect the reported amounts in the financial statements and the accompanying notes. We identify certain accounting policies as critical based on, among other things, their impact on the portrayal of our financial condition, results of operations or liquidity, and the degree of difficulty, subjectivity and complexity in their application. Critical accounting policies estimates cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. Management routinely discusses the development, selection and disclosure of each of the critical accounting policies estimates. Described below are the most significant accounting policies we apply in preparing our consolidated financial statements. We also describe the most significant estimates and assumptions we make in applying these policies.

Proved Natural Gas and Oil Reserves

Our engineers estimate proved natural gas and oil reserves in accordance with SEC regulations, which directly impact financial accounting estimates, including depreciation, depletion and amortization and impairments of proved properties and related assets. Proved reserves represent estimated quantities of crude oil and condensate, NGLs and natural gas that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions existing at the time the estimates were made. The process of estimating quantities of proved natural gas and oil reserves is complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. There are uncertainties inherent in the interpretation of such data, as well as the projection of future rates of production and timing of development expenditures. Reservoir engineering is a subjective process of estimating underground accumulations of natural gas and oil that cannot be measured in an exact way. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, and judgment. Accordingly, there can be no assurance that ultimately, the reserves will be produced, nor can there be assurance that the proved undeveloped reserves will be developed within the period anticipated. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Consequently, material revisions (upward or downward)

38

to existing reserve estimates may occur from time to time. We cannot predict the types of reserve revisions that will be required in future periods. For related discussion, see the sections titled "Risk Factors" and "Supplemental Information to Consolidated Financial Statements."

Unproved Natural Gas and Oil Properties

Unproved properties generally consist of costs incurred to acquire unproved leases. Unproved lease acquisition costs are capitalized until the leases expire or when we specifically identify leases that will revert to the lessor, at which time we expense the associated unproved lease acquisition costs. The expensing of the unproved lease acquisition costs is recorded as an impairment of natural gas and oil properties in the consolidated statements of operations and comprehensive income (loss). Unproved natural gas and oil property costs are transferred to proved natural gas and oil properties if the properties are subsequently determined to be productive or are assigned proved reserves. Unproved natural gas and oil properties are assessed periodically for impairment based on remaining lease terms, drilling results, reservoir performance, future plans to develop acreage, and other relevant factors.

Depreciation, Depletion and Amortization of Natural gas and oil Properties and Gathering Systems

The quantities of estimated proved natural gas and oil reserves are a significant component of our calculation of depreciation, depletion and amortization expense, and revisions in such estimates may alter the rate of future expense. Holding all other factors constant, if reserves were revised upward or downward, earnings would increase or decrease, respectively.

Oil and natural gas 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, depletion and amortization rates are updated quarterly to reflect the addition of capital costs, reserve revisions (upwards or downwards) and additions, property acquisitions and/or property dispositions and impairments.

Impairments

The carrying value of unproved and proved oil and natural gas properties and gathering system assets are reviewed for impairment whenever events indicate that the carrying amounts for those assets may not be recoverable. Such indicators include changes in our business plans, changes in commodity prices leading to unprofitable performance, and, for natural gas and oil properties, significant downward revisions of estimated proved reserve quantities or significant increases in the estimated development costs.

We compare expected undiscounted future cash flows at a depreciation, depletion and amortization group level to the carrying value of the asset. If the expected undiscounted future cash flows, based on our estimates of (and assumptions regarding) future oil and natural gas prices, operating costs, development expenditures, anticipated production from proved reserves and other relevant data, are lower than the carrying value of the asset, the carrying value is reduced to fair value. Fair value is generally calculated using the "Income Approach" based on estimated discounted net cash flows. Estimates of future cash flows require significant judgment, and the assumptions used in preparing such estimates are inherently uncertain. In addition, such assumptions and estimates are reasonably likely to change in the future. Significant

inputs used to determine the fair values of proved properties include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices and (iv) a market-based weighted average cost of capital rate.

We evaluate impairment of proved and unproved natural gas and oil properties on an area basis. On this basis, certain fields may be impaired because they are not expected to recover their entire carrying value from future net cash flows. The basis for future depletion, depreciation, amortization, and accretion will take into account the reduction in the value of the asset as a result of any accumulated impairment losses. Unproved natural gas and oil properties are assessed periodically for impairment based on remaining lease terms, drilling results, reservoir performance, future plans to develop acreage, and other relevant factors.

When circumstances indicate that the gathering system properties may be impaired, Epsilon compares expected undiscounted future cash flows related to the gathering system to the unamortized capitalized cost of the asset. If the expected undiscounted future cash flows are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally calculated using the Income Approach, which considers estimated discounted future cash flows.

Derivative Financial Instruments

Derivative financial instruments are used to hedge exposure to changes in commodity prices arising in the normal course of business. The principal derivatives that may be used are commodity price swap and collar contracts. The use of these instruments is subject to policies and procedures as approved by the Board. Derivative financial instruments are not traded for speculative purposes. No derivative contracts have been designated as cash flow hedges for accounting purposes. Derivative financial instruments are initially recognized at cost, if any, which approximates fair value. Subsequent to initial recognition, derivative financial instruments are recognized at fair value. The derivatives are valued on a mark-to-market valuation, and the gain or loss on re-measurement to fair value is recognized through the consolidated statements of operations and comprehensive income (loss). The estimated fair value of derivative instruments requires substantial judgment. These values are based upon, among other things, option pricing models, futures prices, volatility, time to maturity, and credit risk. The values reported in Epsilon's financial statements change as these estimates are revised to reflect actual results, changes in market conditions or other factors.

The counterparties to our derivative instruments are not known to be in default on their derivative positions. However, we are exposed to credit risk to the extent of nonperformance by the counterparty in the derivative contracts. We believe credit risk is minimal and do not anticipate such nonperformance by such counterparties.

Asset Retirement Obligations ("ARO")

We recognize asset retirement obligations under ASC 410, Asset Retirement and Environmental Obligations. ASC 410 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. For our upstream properties, these obligations consist of estimated future costs associated with the plugging and abandonment of natural gas and oil wells, removal of equipment and facilities from leased acreage and land restoration in accordance with applicable local, state and federal laws. For our gathering system, these obligations consist of estimated future costs associated with the removal of equipment and facilities from leased acreage and land restoration in accordance with applicable local, state and federal laws. The discounted fair value of an ARO liability is required to be recognized in the period in which it is incurred, with the associated asset retirement cost capitalized as part of the carrying cost of the natural gas and oil or gathering system asset. The initial recognition of an ARO fair value requires that management make numerous assumptions regarding such factors as the amounts and timing of settlements; the credit-adjusted risk-free discount rate; and the inflation rate. In periods subsequent to the initial measurement of an ARO, period-to-period changes are recognized in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Increases in the ARO liability due to the passage of time impact net income as accretion expense. The related capitalized cost, including revisions thereto, is charged to expense through DD&A over the life of the natural gas and oil property or gathering system asset.

Income Taxes

Tax regulations and legislation in the U.S. and Canada are subject to change and differing interpretations requiring judgment. We compute income taxes using the asset-and-liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities, as well as loss and tax credit carryforwards. Changes in tax rates and laws are recognized in income in the period such changes are enacted.

We establish a valuation allowance if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We consider all positive and negative evidence, including historical operating results, the existence of cumulative losses, estimates of future operating income, and the reversal of existing taxable temporary differences in assessing the need for a valuation allowance. Income tax filings are subject to audits and

re-assessments. Changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in our provision for income taxes.

Recently Issued Accounting Standards

See Note 3, Summary "Summary of Significant Accounting Policies Policies" in Notes to the Consolidated Financial Statements.

ITEM 7A. 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 oil and natural gas can fluctuate widely and are influenced by numerous factors such as demand, production levels, and world political and economic events and the strength of the U.S. dollar relative to other currencies. Should the price of oil or natural gas decline substantially, the value of our assets could fall dramatically, impacting our future options 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 Shale 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 for all or a portion of the principal balance for a period up to three months. To the extent that the interest rate is fixed, interest rate changes affect the instrument's fair market value but do not affect results of operations or cash flows. Conversely, for the portion of the credit agreement that has a floating interest rate, interest rate changes will not affect the fair market value but will affect future results of operations and cash flows.

At December 31, 2022 and 2021, 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 natural gas production. Natural gas 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 the gas to other regions, as well as conditions in other natural gas 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 the Company to losses or gains, entering into these contracts helps to stabilize cash flows and support the Company's capital spending program.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated balance sheets as of December 31, 2022, December 31, 2023 and 2021, 2022, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for years ended December 31, 2022, December 31, 2023 and 2021, 2022 included in this annual report have been prepared in accordance with U.S. GAAP.

41

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Epsilon Energy Ltd.
Houston, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Epsilon Energy Ltd. (the "Company") as of December 31, 2022, December 31, 2023 and 2021, 2022, the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022, December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP P.C.

We have served as the Company's auditor since 2017.

Houston, Texas
March 23, 2023, 20, 2024

EPSILON ENERGY LTD.
Consolidated Balance Sheets

	December 31, 2022	December 31, 2021
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 45,236,584	\$ 26,497,305
Accounts receivable	7,201,386	4,596,931
Fair value of derivatives	1,222,090	—
Prepaid income taxes	1,140,094	—
Other current assets	632,154	569,870
Operating lease right-of-use assets	31,383	—
Total current assets	55,463,691	31,664,106
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	148,326,265	138,032,413
Unproved properties	18,169,157	21,700,926
Accumulated depletion, depreciation, amortization and impairment	(107,729,293)	(102,480,972)
Total oil and gas properties, net	58,766,129	57,252,367
Gathering system	42,639,001	42,475,086
Accumulated depletion, depreciation, amortization and impairment	(34,500,740)	(33,443,949)
Total gathering system, net	8,138,261	9,031,137
Land	637,764	637,764
Buildings and other property and equipment, net	286,035	309,102
Total property and equipment, net	67,828,189	67,230,370
Other assets:		
Restricted cash	570,363	568,118
Total non-current assets	68,398,552	67,798,488
Total assets	\$ 123,862,243	\$ 99,462,594
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 1,695,353	\$ 1,189,905
Gathering fees payable	935,012	963,546
Royalties payable	2,223,043	1,853,508
Income taxes payable	—	1,098,425
Accrued capital expenditures	41,694	1,016,830
Accrued compensation	598,351	343,348
Other accrued liabilities	690,655	754,779
Fair value of derivatives	—	239,824
Asset retirement obligations	—	85,207

Operating lease liabilities	35,299	—
Total current liabilities	6,219,407	7,545,372
<i>Non-current liabilities</i>		
Asset retirement obligations	2,780,237	2,748,449
Deferred income taxes	10,617,394	9,905,440
Total non-current liabilities	13,397,631	12,653,889
Total liabilities	19,617,038	20,199,261
Commitments and contingencies (Note 10)		
<i>Shareholders' equity</i>		
Preferred shares, no par value, unlimited shares authorized, none issued or outstanding	—	—
Common shares, no par value, unlimited shares authorized and 23,117,144 issued and outstanding at December 31, 2022 and 24,202,218 issued and 23,668,203 shares outstanding at December 31, 2021	123,904,965	131,815,739
Treasury shares, at cost, 0 at December 31, 2022 and 534,015 at December 31, 2021	—	(2,423,007)
Additional paid-in capital	9,856,229	8,835,203
Accumulated deficit	(39,290,540)	(68,783,207)
Accumulated other comprehensive income	9,774,551	9,818,605
Total shareholders' equity	104,245,205	79,263,333
Total liabilities and shareholders' equity	\$ 123,862,243	\$ 99,462,594
	December 31,	December 31,
	2023	2022
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 13,403,628	\$ 45,236,584
Accounts receivable	6,015,448	7,201,386
Short term investments	18,775,106	—
Fair value of derivatives	1,219,025	1,222,090
Prepaid income taxes	952,301	1,140,094
Other current assets	763,288	632,154
Operating lease right-of-use assets	—	31,383
Total current assets	41,128,796	55,463,691
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	160,263,511	148,326,265
Unproved properties	25,504,873	18,169,157
Accumulated depletion, depreciation, amortization and impairment	(113,708,210)	(107,729,293)
Total oil and gas properties, net	72,060,174	58,766,129
Gathering system	42,738,273	42,639,001
Accumulated depletion, depreciation, amortization and impairment	(35,539,996)	(34,500,740)
Total gathering system, net	7,198,277	8,138,261
Land	637,764	637,764
Buildings and other property and equipment, net	291,807	286,035
Total property and equipment, net	80,188,022	67,828,189
Other assets:		
Operating lease right-of-use assets, long term	441,987	—
Restricted cash	470,000	570,363
Prepaid drilling costs	1,813,808	—
Total non-current assets	82,913,817	68,398,552
Total assets	\$ 124,042,613	\$ 123,862,243
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 3,149,371	\$ 1,695,353

Gathering fees payable	1,136,237	935,012
Royalties payable	1,422,898	2,223,043
Accrued capital expenditures	696,761	41,694
Accrued compensation	636,295	598,351
Other accrued liabilities	649,037	690,655
Fair value of derivatives	118,770	—
Operating lease liabilities	86,473	35,299
Total current liabilities	7,895,842	6,219,407
<i>Non-current liabilities</i>		
Asset retirement obligations	3,502,952	2,780,237
Deferred income taxes	11,553,943	10,617,394
Operating lease liabilities, long term	476,911	—
Total non-current liabilities	15,533,806	13,397,631
Total liabilities	23,429,648	19,617,038
Commitments and contingencies (Note 11)		
<i>Shareholders' equity</i>		
Preferred shares, no par value, unlimited shares authorized, none issued or outstanding	—	—
Common shares, no par value, unlimited shares authorized and 22,222,722 shares issued and 22,151,848 shares outstanding at December 31, 2023 and 23,117,144 issued and outstanding at December 31, 2022	118,272,565	123,904,965
Treasury shares, at cost, 70,874 at December 31, 2023 and 0 at December 31, 2022	(360,326)	—
Additional paid-in capital	10,874,491	9,856,229
Accumulated deficit	(37,946,042)	(39,290,540)
Accumulated other comprehensive income	9,772,277	9,774,551
Total shareholders' equity	100,612,965	104,245,205
Total liabilities and shareholders' equity	\$ 124,042,613	\$ 123,862,243

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

EPSILON ENERGY LTD.
Consolidated Statements of Operations and Comprehensive Income

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Revenues from contracts with customers:				
Gas, oil, NGL, and condensate revenue	\$ 61,877,197	\$ 34,538,167	\$20,939,221	\$61,877,197
Gas gathering and compression revenue	8,085,512	7,865,825	9,790,531	8,085,512
Total revenue	69,962,709	42,403,992	30,729,752	69,962,709
Operating costs and expenses:				
Lease operating expenses	7,128,631	6,303,055	6,405,281	7,128,631
Gathering system operating expenses	2,287,763	2,321,329	2,459,694	2,287,763
Development geological and geophysical expenses	9,545	40,299	—	9,545
Depletion, depreciation, amortization, and accretion	6,438,511	6,627,016	7,685,084	6,438,511
Impairment expense	—	153,058		

Gain on sale of oil and gas properties	(221,642)	(484,902)		
Loss (gain) on sale of oil and gas properties			1,449,871	(221,642)
General and administrative expenses:				
Stock based compensation expense	1,021,026	956,084	1,018,262	1,021,026
Other general and administrative expenses	6,325,412	5,875,732	6,293,234	6,325,412
Total operating costs and expenses	22,989,246	21,791,671	25,311,426	22,989,246
Operating income	46,973,463	20,612,321	5,418,326	46,973,463
Other income (expense):				
Interest income	452,877	38,865	1,673,241	452,877
Interest expense	(50,782)	(101,382)	(80,379)	(50,782)
Gain (loss) on derivative contracts	236,077	(4,482,909)		
Other income (expense)	(99,469)	1,130		
Gain on derivative contracts			3,130,055	236,077
Other income (expense), net	538,703	(4,544,296)	4,357	(99,469)
Other income, net			4,727,274	538,703
Net income before income tax expense	47,512,166	16,068,025	10,145,600	47,512,166
Income tax expense	12,157,487	4,440,508	3,200,447	12,157,487
NET INCOME	\$ 35,354,679	\$ 11,627,517	\$ 6,945,153	\$35,354,679
Currency translation adjustments	(44,054)	(2,042)	(3,872)	(44,054)
Unrealized gain on securities			1,598	—
NET COMPREHENSIVE INCOME	\$ 35,310,625	\$ 11,625,475	\$ 6,942,879	\$35,310,625
Net income per share, basic	\$ 1.52	\$ 0.49	\$ 0.31	\$ 1.52
Net income per share, diluted	\$ 1.51	\$ 0.49	\$ 0.31	\$ 1.51
Weighted average number of shares outstanding, basic	23,319,633	23,705,193	22,496,772	23,319,633
Weighted average number of shares outstanding, diluted	23,406,189	23,857,102	22,511,647	23,406,189

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

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

	Accumulated							Total
	Common Shares Issued		Treasury Shares		Additional paid-in Capital	Other Comprehensive Income	Accumulated Deficit	
	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	23,985,799	\$131,730,401	—	\$ —	\$7,879,119	\$9,820,647	\$(80,410,724)	\$ 69,019,443
Net income	—	—	—	—	—	—	11,627,517	11,627,517
Stock-based compensation expenses	—	—	—	—	956,084	—	—	956,084
Buyback of common shares	—	—	(534,015)	(2,423,007)	—	—	—	(2,423,007)
Exercise of stock options	16,250	85,338	—	—	—	—	—	85,338
Vesting of shares of restricted stock	200,169	—	—	—	—	—	—	—

Other comprehensive income	—	—	—	—	—	(2,042)	—	(2,042)
Balance at December 31, 2021	24,202,218	\$131,815,739	(534,015)	\$(2,423,007)	\$8,835,203	\$9,818,605	\$(68,783,207)	\$ 79,263,333
Net income	—	—	—	—	—	—	35,354,679	35,354,679
Dividends	—	—	—	—	—	—	(5,862,012)	(5,862,012)
Stock-based compensation expenses	—	—	—	—	1,021,026	—	—	1,021,026
Buyback of common shares	—	—	(982,500)	(6,234,879)	—	—	—	(6,234,879)
Retirement of treasury shares	(1,516,515)	(8,657,886)	1,516,515	8,657,886	—	—	—	—
Exercise of stock options	138,750	747,112	—	—	—	—	—	747,112
Vesting of shares of restricted stock	292,691	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	(44,054)	—	(44,054)
Balance at December 31, 2022	23,117,144	\$123,904,965	—	\$ —	\$9,856,229	\$9,774,551	\$(39,290,540)	\$104,245,205

	Accumulated							
					Other		Total	
	Common Shares Issued		Treasury Shares		Additional	Comprehensive	Accumulated	Shareholders'
	Shares	Amount	Shares	Amount	paid-in Capital	Income	Deficit	Equity
Balance at December 31, 2021	24,202,218	\$131,815,739	(534,015)	\$(2,423,007)	\$ 8,835,203	\$9,818,605	\$(68,783,207)	\$ 79,263,333
Net income	—	—	—	—	—	—	35,354,679	35,354,679
Dividends	—	—	—	—	—	—	(5,862,012)	(5,862,012)
Stock-based compensation expense	—	—	—	—	1,021,026	—	—	1,021,026
Buyback of common shares	—	—	(982,500)	(6,234,879)	—	—	—	(6,234,879)
Retirement of treasury shares	(1,516,515)	(8,657,886)	1,516,515	8,657,886	—	—	—	—
Exercise of stock options	138,750	747,112	—	—	—	—	—	747,112
Vesting of shares of restricted stock	292,691	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(44,054)	—	(44,054)
Balance at December 31, 2022	23,117,144	\$123,904,965	—	\$ —	\$ 9,856,229	\$9,774,551	\$(39,290,540)	\$104,245,205
Net income	—	—	—	—	—	—	6,945,153	6,945,153
Dividends	—	—	—	—	—	—	(5,600,655)	(5,600,655)
Stock-based compensation expense	—	—	—	—	1,018,262	—	—	1,018,262
Buyback of common shares	—	—	(1,158,849)	(6,055,601)	—	—	—	(6,055,601)
Retirement of treasury shares	(1,087,975)	(5,695,275)	1,087,975	5,695,275	—	—	—	—
Exercise of stock options	12,500	62,875	—	—	—	—	—	62,875
Vesting of shares of restricted stock	181,053	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(2,274)	—	(2,274)
Balance at December 31, 2023	22,222,722	\$118,272,565	(70,874)	\$ (360,326)	\$10,874,491	\$9,772,277	\$(37,946,042)	\$100,612,965

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

EPSILON ENERGY LTD.
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 35,354,679	\$ 11,627,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	6,438,511	6,627,016
Impairment expense	—	153,058
Loss (gain) on derivative contracts	(236,077)	4,482,909
Gain on sale of oil and gas properties	(221,642)	(484,902)
Settlement (paid) received on derivative contracts	(1,225,837)	(4,243,085)
Settlement of asset retirement obligation	(118,260)	—
Stock-based compensation expense	1,021,026	956,084
Deferred income tax expense (benefit)	711,954	(197,412)
Changes in assets and liabilities:		
Accounts receivable	(2,604,455)	(679,643)
Other current assets	(58,368)	20,000
Accounts payable, royalties payable and other accrued liabilities	1,182,348	646,410
Income taxes payable	(2,238,519)	1,098,425
Net cash provided by operating activities	38,005,360	20,006,377
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(310,211)	(148,862)
Additions to proved oil and gas properties	(7,562,502)	(4,435,945)
Additions to gathering system properties	(184,032)	(297,841)
Additions to land, buildings and property and equipment	(13,258)	(5,745)
Proceeds from sale of oil and gas properties	200,000	450,000
Prepaid drilling costs	—	379
Net cash used in investing activities	(7,870,003)	(4,438,014)
Cash flows from financing activities:		
Buyback of common shares	(6,234,879)	(2,423,007)
Exercise of stock options	747,112	85,338
Dividends	(5,862,012)	—
Net cash used in financing activities	(11,349,779)	(2,337,669)
Effect of currency rates on cash, cash equivalents and restricted cash	(44,054)	(2,042)
Increase in cash, cash equivalents and restricted cash	18,741,524	13,228,652
Cash, cash equivalents and restricted cash, beginning of period	27,065,423	13,836,771
Cash, cash equivalents and restricted cash, end of period	\$ 45,806,947	\$ 27,065,423
Supplemental cash flow disclosures:		
Income taxes paid	\$ 13,669,000	\$ 3,444,025
Interest paid	\$ 68,328	\$ 95,942
Non-cash investing activities:		
Change in unproved properties accrued in accounts payable and accrued liabilities	\$ —	\$ (65,000)
Change in proved properties accrued in accounts payable and accrued liabilities	\$ (1,100,041)	\$ (1,097,257)
Change in gathering system accrued in accounts payable and accrued liabilities	\$ (20,118)	\$ (25,399)
Asset retirement obligation asset additions and adjustments	\$ 12,053	\$ 33,234
	Year ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 6,945,153	\$ 35,354,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	7,685,084	6,438,511
Accretion of discount on available for sale securities	(836,528)	—
Loss (gain) on sale of oil and gas properties	1,449,871	(221,642)

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

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

Notes to the Consolidated Financial Statements
For the years ended **December 31, 2022**, **December 31, 2023** and **2021** **2022**

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. On October 24, 2007, the Company became a publicly traded entity trading on the Toronto Stock Exchange ("TSX") in Canada. 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." Effective as of the close of trading on March 15, 2019, Epsilon voluntarily delisted its common shares from the TSX. 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.

2. Basis of Preparation

Principles of Consolidation

The Company's 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, Epsilon Operating, LLC, Dewey Energy GP, LLC, Dewey Energy Holdings, 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 reserves and related cash flow estimates used in impairment tests of oil and natural gas 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.

Reclassification

The consolidated financial statements for the prior periods include certain reclassifications that were made to conform to the current period presentation. Such reclassifications have no impact on previously reported consolidated financial position, results of operations or cash flows.

3. Summary of Significant Accounting Policies

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 **December 31, 2022**, **December 31, 2023** and **2021**: **2022**:

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 45,236,584	\$ 26,497,305	\$13,403,628	\$45,236,584
Restricted cash included in other assets	570,363	568,118	470,000	570,363
Cash, cash equivalents and restricted cash in the statement of cash flows	\$ 45,806,947	\$ 27,065,423		
Cash, cash equivalents, and restricted cash in the statement of cash flows			\$13,873,628	\$45,806,947

Accounts Receivable 47

EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2023 and Allowance for Doubtful Accounts 2022

Accounts receivable are primarily from purchasers of oil and natural gas, counterparties to our financial instruments, and revenues earned for compression and gathering services. Both oil and natural gas 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.

Estimated losses on accounts receivable are provided through an allowance for doubtful accounts. We estimate the allowance for doubtful accounts 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. Actual balances are not applied against the reserves until substantially all collection efforts have been exhausted.

Our allowance for doubtful accounts was nil as of December 31, 2022 and 2021.

Oil and Natural Gas Properties

Epsilon accounts for its crude oil and natural gas exploration and production activities under the successful efforts method of accounting.

Oil and natural gas lease acquisition costs are capitalized when incurred. Unproved properties with acquisition costs that are not individually significant are aggregated. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and natural gas properties. Lease delay rentals are expensed as incurred.

Oil and natural gas exploration costs, other than the costs of drilling exploratory wells, are expensed as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether Epsilon has discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. In some circumstances, it may be uncertain whether proved commercial reserves have been discovered when drilling has been completed. Such exploratory well drilling costs may continue to be capitalized if the reserve quantity is sufficient to justify its completion as a producing well and sufficient progress in assessing the reserves and the economic and operating viability of the project is being made. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized (see Note 4) 5).

48

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

Depreciation, depletion and amortization of the cost of proved oil and natural gas properties is calculated using the unit-of-production method. The reserve base used to calculate depreciation, depletion and amortization for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. With respect to lease and well equipment costs, which include development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves.

When circumstances indicate that proved (developed and undeveloped) oil and natural gas properties may be impaired, Epsilon compares expected undiscounted future cash flows at a depreciation, depletion and amortization group level to the carrying value of the asset. If the expected undiscounted future cash flows, based on Epsilon's estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the carrying value of the asset, the capitalized cost is reduced to fair value. Fair value is generally calculated using the Income Approach which considers estimated discounted future cash flows.

Gas Gathering System Properties

Epsilon's 35% portion of asset development costs are capitalized when incurred. All other costs are expensed.

Depreciation, depletion and amortization of the cost of gathering system properties is calculated using the unit-of- production method. The reserve base used to calculate depreciation, depletion and amortization for the gathering system includes only proved Pennsylvania natural gas developed reserves.

When circumstances indicate that the gathering system properties may be impaired, Epsilon compares expected undiscounted future cash flows related to the gathering system to the unamortized capitalized cost of the asset. If the expected undiscounted future cash flows are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally calculated using the Income Approach, which considers estimated discounted future cash flows.

Revenue Recognition

Revenues are comprised primarily of sales of natural gas and to a much lesser degree crude 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.

Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

Accounting Policies

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied. The Company recognizes upstream revenue at the point in time when control has been transferred to the customer, generally at the time natural gas reaches an agreed-upon delivery point and collectability is reasonably assured. Upstream revenue is generally based upon a fixed price, based on a market index, and is measured as the amount of consideration the Company expects to receive in exchange for the transferring of the natural gas. The services provided by the gas gathering system take place continuously and as a practical expedient, the revenues are recognized monthly for the volumes that are processed and transported for the upstream producers during that period of time. Revenue for the services performed are based on the rates outlined in the cost of service agreement that governs all volumes gathered and processed by the system. The gathering rates are adjusted, and fixed annually. Typically, the Company sells its natural gas directly to customers, under agreements with payment terms less than 30 days after delivery and 60 days on the revenue generated by the gas gathering system.

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

Natural Gas Revenues

The Company's natural gas purchase contracts are generally structured such that Epsilon commits and dedicates for sale its proportionate share of natural gas production per day to a purchaser. Natural gas is sold at a percentage of index prices of each component, less any stated deductions. Control transfers at the delivery point specified in the contract, which typically is stated as the inlet of the third-party sales transportation pipeline. The Company recognizes revenue proportionate to its entitled share of volumes sold. Currently, the vast majority of Epsilon's natural gas production comes from the Marcellus Field in Northeastern Pennsylvania.

Epsilon uses a third-party service for its natural gas marketing. In this capacity, the third-party is responsible for carrying out marketing activities such as submission of nominations, receipt of payments, submission of invoices and negotiation of contracts. Commissions payable to the third-party broker for these services are treated as lease operating expenses in the financial statements.

Gas Gathering System Revenue

The Company has a 35% ownership interest in the Auburn Gas Gathering System ("Auburn GGS"). This system aggregates the natural gas from the various pads in the field and transports the natural gas to the inlet of the Auburn compression facility where it is dehydrated, compressed and injected into the Tennessee Gas Pipeline. The gathering and compression services operate under fee-based contracts. The producers in the area served by the gathering system pay fees to the system owners based on the services provided to them in getting their share of the gas production to the third-party sales transmission point. Revenue is recognized over time as the services are provided.

Oil and Other Liquids Revenue

The source of the Company's oil and other liquids revenue is its ownership interest in wells in the Permian Basin and Oklahoma. The Company does not operate the wells and has elected not to receive its proportionate share of the production. As such, under the Joint Operating Agreement, the operators have control of the marketing of this production at current market prices and remits our net revenue interest less taxes and fees on a monthly basis. The Company recognizes revenue with a monthly accrual of its proportionate share of volumes produced at an estimated market price.

Accounts Receivable and Other

Oil, natural gas liquid and natural gas receivables consist of amounts due from purchasers for commodity sales from our revenue interest in the leases in Northwestern Northeastern Pennsylvania, the Permian Basin, and Oklahoma. Payments from purchasers are typically due by the last day of the month following the month of delivery. Gathering fee revenue consists of fees due from the operator of the Auburn GGS, as an agent for the Company fulfilling the operations of the gathering system. Payments from the operator are typically due 60 days from the last day of the month of transmission. The Company's operations do not result in any contract assets or liabilities on the accompanying consolidated balance sheets.

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

Buildings and Other Property and Equipment

Buildings are depreciated on a straight-line basis over the estimated useful life of the property, 30 years.

Other property and equipment consists of computer hardware and software, and furniture and fixtures. Other property and equipment is generally depreciated on a straight-line basis over the estimated useful lives of the property and equipment, which range from 3 years to 7 years.

Financial Instruments and Fair Value

Epsilon's financial instruments consist of cash and cash equivalents, short term investments, restricted cash, commodity derivative contracts, accounts receivable, accounts payable, and long-term debt.

Our financial instruments that are accounted for at fair value consist of commodity derivatives.

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3—Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. The Company makes its own assumptions about how market participants would price the assets and liabilities.

Cash and cash equivalents, and 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. These financial 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.

The Company has investments in U.S. Treasury Bills, which mature over a period between 3 and 12 months and are therefore designated classified as short term investments. The U.S. Treasury Bills are carried at fair value. The U.S. Treasury Bills are classified within Level 1 within of the valuation fair value hierarchy.

Commodity derivative instruments consist of fixed-price swaps, NYMEX HH swap and basis swap contracts for natural gas. The Company's derivative contracts are valued based on an income a marked to market approach. The model considers various assumptions, such as quoted forward prices for commodities, time value and volatility factors. 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.

Derivative Instruments

The Company enters into derivative contracts to hedge price risk associated with a portion of natural gas production. While it is never management's intention to hold or issue derivative instruments for speculative trading purposes, conditions sometimes arise where actual production is less than estimated, which has, and could, result in over-hedged volumes. Natural gas production is primarily sold under market

sensitive contracts which are typically priced at a differential to the NYMEX or the published natural gas index prices for the producing area due to the natural gas quality and the proximity to major consuming markets. Our derivative transactions have included the following:

- Fixed-price swaps—where a fixed-price is received for production and a variable market price is paid to the contract counterparty.

50

EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2023 and 2022

- Basis swap contracts—which guarantee a specified price differential between the price at Henry Hub and our physical pricing points. If the settled price differential is greater than the swapped basis, then we receive a payment from the counterparty in the amount of the difference between the two. If the settled price differential is less than the swapped basis, then we make a payment to the counterparty for the difference between the two.
- Two-way collar contracts—which guarantee a specified price range for NYMEX by using the proceeds of selling a call option at a specified strike price (the “Ceiling”) to finance the purchase of a put option at a specified strike price (the “Floor”).

Derivative instruments are recorded on the consolidated balance sheets at fair value as either current or non-current assets or liabilities based on their anticipated settlement date. Gains or losses on derivative contracts are recorded as gain (loss) on commodity contracts in the consolidated statements of operations and comprehensive income. Hedge accounting is not used for our derivative assets and liabilities.

51

Epsilon Energy Ltd.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2022 and 2021

Asset Retirement Obligations

The Company records a liability for asset retirement obligations at fair value in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method of the asset's useful life. Recognized asset retirement obligations relate to the plugging and abandonment of oil and natural gas wells and decommissioning of the gas gathering system. Management reviews the estimates of the timing of well abandonments as well as the estimated plugging and abandonment costs, which are discounted at the credit adjusted risk free rate. These adjustments are recorded to the asset retirement obligations with an offsetting change to oil and gas properties. An ongoing accretion expense is recognized for changes in the value of the liability as a result of the forecast inflation due to the passage of time, which is recorded in depreciation, depletion, amortization, and accretion expense in the consolidated statements of operations and comprehensive income.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short term investments, accounts receivable and derivative contracts. Exposure to credit risk associated with these instruments is controlled by (i) placing assets and other financial interests with credit-worthy financial institutions, (ii) maintaining policies over credit extension that include the evaluation of customers' financial condition and monitoring paying history, although the Company does not have collateral requirements and (iii) netting derivative assets and liabilities for counterparties with a legal right of offset.

At December 31, 2022, December 31, 2023 and 2021, 2022, the cash and cash equivalents and short term investments were primarily concentrated in one financial institution the U.S. We currently have \$7.2 million, \$15.6 million in excess of the federally insured limits. The

Company periodically assesses the financial condition of these institutions and believe that any possible credit risk is minimal.

For the years year ended December 31, 2023, the Company had four customers that accounted for 90.7% of the total trade accounts receivable. For the year ended December 31, 2022 and 2021, the Company had three customers that accounted for 95.7% and 85.9%, respectively, of the total trade accounts receivable.

Geographic Locations of Operations

Approximately 91% 77% and 93% 88% of our production revenue during fiscal 2022 years 2023 and 2021, 2022, respectively, was derived from natural gas production and gathering system revenues in the state of Pennsylvania. As a result of prolonged weak pricing in Zone 4 of the Tennessee Gas Pipeline and, therefore, a reduced pace of development, Epsilon's management is striving to allocate capital to additional upstream opportunities outside of the Marcellus Shale. More specifically, the Company has allocated capital to the Permian Basin through its investments in New Mexico and Texas. Epsilon's management expects to continue to seek opportunities outside of the Marcellus Shale in order to provide the Company the flexibility to respond to market conditions by allocating capital across multiple basins and commodities.

51

EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2023 and 2022

As a result of this geographic concentration, we may be disproportionately exposed to the effect of regional supply and demand factors, delays or interruptions of production from wells in this area caused by governmental regulation, processing or transportation capacity constraints, market limitations, weather events or interruption of the processing or transportation of crude oil or natural gas.

Income Taxes

Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax basis. Epsilon assesses the realizability of deferred tax assets and recognizes valuation allowances as appropriate (see Note 9) 10).

Foreign Currency Transactions

Even though the Canadian dollar is the functional currency of Epsilon Energy Ltd. (the parent entity), the United States dollar is the reporting currency for all of Epsilon's consolidated subsidiaries. Any gains or losses on transactions or monetary assets or liabilities in currencies other than the functional currency are included in net income in the current period. Gains and losses on translation of balances denominated in Canadian dollars are included in accumulated other comprehensive income.

52

Epsilon Energy Ltd.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2022 and 2021

Stock-Based Compensation

The Company mainly estimates the fair value of all stock options awarded to employees and directors using the Black-Scholes option pricing model. Other models are used for options with more complex vesting criteria. Compensation expense and a corresponding increase to additional paid-in capital are recorded over the vesting period based on the fair value of the options granted using a graded vesting approach.

When stock options are exercised for common shares, consideration paid by the stock option holders and additional paid-in capital associated with the stock options are recorded. The Company estimates a forfeiture rate and adjusts the corresponding expense each period based on an updated forfeiture estimate (see Note 6 7).

The Company has issued time-based restricted stock and performance share units ("PSU") to employees and directors of the Company. The fair value of the time-based restricted stock is determined using the fair value of the Company's common shares on the date of grant. The fair value of the PSUs is determined by the performance requirements. Based on the performance requirements, either the fair value of the Company's common shares on the date of grant, or a Monte Carlo valuation is used to determine fair value of the shares at the date of the grant. These awards vest ratably over a three-year period. Compensation expense and a corresponding increase to additional paid in capital are recorded over the vesting period.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which significantly changed accounting for leases by requiring that lessees recognize a right of use asset and a related lease liability representing the obligation to make lease payments, for all lease transactions with terms greater than one year. Additional disclosures about an entity's lease transactions are also required. ASU 2016-02 defines a lease as "a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration." The Company adopted ASU 2016-02 for the year beginning in January 2022, as of January 1, 2022. We have chosen the transition using the comparative report at adoption method of applying the provisions of the new standard at the beginning of the period of adoption instead of the earliest comparative period presented in the consolidated financial statements. There was no material effect from the adoption.

The Company leases office space to be used for general, administrative, and executive offices with terms typically ranging from five to seven years, subject to certain renewal options as applicable. The Company considers renewal or termination options that are reasonably certain to be exercised in the determination of the lease term and initial measurement of lease liabilities and right-of-use assets. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Interest expense for finance leases is incurred based on the carrying value of the lease liability. Leases with an initial term of 12 months or less are not recorded on the Company's Consolidated Balance Sheets and lease agreements with lease and non-lease components are generally accounted for as a single lease component.

52

EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2023 and 2022

The Company determines whether a contract is, or contains, a lease at inception of the contract and whether that lease meets the classification criteria of a finance or operating lease. When available, the Company uses the rate implicit in the lease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. Therefore, the Company must discount lease payments based on an estimate of its incremental borrowing rate based on prevailing financial market conditions at the later of date of adoption or lease commencement, credit analysis of comparable companies and management judgments to determine the present values of its lease payments, payments (see Note 10 12).

Joint Interests

The majority of the Company's oil and natural gas exploration, development and production activities, and the gathering system, are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such jointly controlled assets.

53

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

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 December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The Company adopted ASU 2019-12 for the year beginning in January 2021. There was no immediate impact from the adoption.

In June 2016 the FASB issued ASU Accounting Standards Update ("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 will remove all recognition thresholds and will require 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. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, and must be applied retrospectively. Early adoption is permitted. Epsilon is currently assessing the expected impact and will adopt ASU 2016-13 as of January 1, 2023. We do not expect a material effect. 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 Accounting Standards Codification ("ASC") 848 to provide 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 has adopted ASU 2020-04 as of January 1, 2023. There was no impact from the adoption of this ASU.

In July 2023, the FASB issued ASU No. 2023-03 to amend various SEC paragraphs in the 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 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 the 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.

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 were previously classified as held-to-maturity. In May 2023, as a result of a change in business investment strategy, the Company transferred all of its held-to-maturity short term investments to the available-for-sale category. The securities transferred had a total amortized cost of \$33,026,959, fair value of \$33,021,293 and unrealized losses of \$5,666 at the time of transfer. The unrealized loss was recorded as accumulated other comprehensive income at the time of transfer.

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 December 31, 2023 and 2022.

	December 31, 2023			December 31, 2022		
	Amortized	Unrealized	Fair	Amortized	Unrealized	Fair
	Cost	Gains	Value	Cost	Losses	Value
U.S. Treasury Bills	\$ 18,773,508	\$ 1,598	\$ 18,775,106	\$ —	\$ —	\$ —

During the year ended December 31, 2023, the Company sold securities with a carrying amount of \$10,394,482 for total proceeds of \$10,454,976. The realized gains on these sales were \$60,494. These securities were sold to raise cash to fund capital expenditures. An additional \$16,410,000 of securities reached maturity with total realized gains of \$395,767. The realized gains are included in interest income in the consolidated statements of operations and comprehensive income.

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

5. Property and Equipment

The following table summarizes the Company's property and equipment at December 31, 2022, December 31, 2023 and 2021, 2022:

December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
----------------------	----------------------	----------------------	----------------------

Property and equipment:				
Oil and gas properties, successful efforts method				
Proved properties	\$ 148,326,265	\$ 138,032,413	\$ 160,263,511	\$ 148,326,265
Unproved properties	18,169,157	21,700,926	25,504,873	18,169,157
Accumulated depletion, depreciation, amortization and impairment	(107,729,293)	(102,480,972)	(113,708,210)	(107,729,293)
Total oil and gas properties, net	58,766,129	57,252,367	72,060,174	58,766,129
Gathering system	42,639,001	42,475,086	42,738,273	42,639,001
Accumulated depletion, depreciation, amortization and impairment	(34,500,740)	(33,443,949)	(35,539,996)	(34,500,740)
Total gathering system, net	8,138,261	9,031,137	7,198,277	8,138,261
Land	637,764	637,764	637,764	637,764
Buildings and other property and equipment, net	286,035	309,102	291,807	286,035
Total property and equipment, net	\$ 67,828,189	\$ 67,230,370	\$ 80,188,022	\$ 67,828,189

Asset Acquisitions

During the year ended December 31, 2023, Epsilon made the following three acquisitions. Management determined that substantially all of the fair value of the gross assets acquired were concentrated in oil and gas properties and therefore accounted for these transactions as asset acquisitions and allocated the purchase price based on the relative fair value of the assets acquired and liabilities assumed. There were no asset acquisitions for the year ended December 31, 2022.

- a 10% interest in two wellbores located in Eddy County, New Mexico for total consideration of \$2.1 million paid in cash.
- a 25% working interest in 1,297 gross acres in Ector County, Texas for total consideration of \$1.3 million paid in cash.
- a 25% working interest in 11,067 gross acres in Ector County, Texas for total consideration of \$6.3 million paid in cash.

Property Sale

In April 2022, During the Company completed year ended December 31, 2023, Epsilon sold two wellbore-only Oklahoma assets for \$12,498. This sale resulted in a well bore only sale and conveyance and partial release loss of oil and gas leases in \$1.45 million. During the year ended December 31, 2022, Epsilon sold one wellbore-only Oklahoma asset for \$200,000. In December 2021, the Company completed the This sale resulted in a gain of its shallow rights leases and wells in Oklahoma for \$450,000, \$0.22 million.

Property Impairment

Epsilon performs a quantitative impairment test whenever events or changes in circumstances indicate that an asset group's carrying amount may not be recoverable. When indicators of impairment are present, the Company first

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

compares 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 to the estimated fair values is required. This is determined based on discounted cash flow techniques using significant assumptions including production volumes, future commodity prices, and a market-specific weighted average cost of capital which are affected by expectations about future market and economic conditions. Additionally, U.S. GAAP requires that if an exploratory well is determined not to have found proved reserves, the costs incurred, net of any salvage value, are charged to expense. For unproved properties, such as leasehold costs, expected current and future market prices for similar assets are considered relative to carrying values in evaluating impairment.

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

No impairment was recorded for the year years ended December 31, 2022. For the year ended December 31, 2021, the Company recognized dry hole costs of \$0.15 million. December 31, 2023 and 2022.

5.6. Revolving Line of Credit

The Company has closed a senior secured reserve based revolving credit facility which includes a total on June 28, 2023 with Frost Bank as issuing bank and sole lender. The new facility replaced the Company's previous facility. The initial commitment of up to \$100 million. The effective and borrowing base is \$30 million, which is \$35 million (redetermined as of December 6, 2023), supported by the Company's upstream assets in Pennsylvania and subject to semi-annual redetermination. There are currently redeterminations with a maturity date of the earlier of June 28, 2027. 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 subsidiary, Epsilon Energy USA. As of December 31, 2023, there were no borrowings under the facility. If we decide to access the facility, depending on the level of borrowing, we might need to increase our hedging activity. Borrowings from the Facility may be used for the acquisition and development of oil and gas properties, investments in cash flow generating assets complimentary to the production of oil and gas, and for letters of credit and other general corporate purposes. Upon each advance, interest is charged at the highest of a) the Prime Rate, or b) the sum of the Federal Funds Rate plus 0.5%, plus an applicable margin (0.25%-1.25%, based on percentage utilization on the facility).

The facility matures on March 1, 2024.

Effective April 6, 2021, the agreement was amended to extend the maturity date to March 1, 2024. In addition, the agreement was amended to include a *Benchmark Replacement* definition and transition plan to be used at such time when the LIBOR rate is discontinued.

On February 10, 2023, Epsilon Energy USA entered into the Ninth Amendment of the Credit Agreement. The borrowing base was increased to \$30 million. LIBOR was removed as a reference option in the calculation of interest. Hedging requirements were amended to be between 0%-62.5% of the 24-month projected production volumes, based on percentage utilization on the facility. Also, cash distributions to the parent company (Epsilon Energy Ltd.) were allowed if the facility is < 80% utilized and the leverage ratio (total debt / income adjusted for interest, taxes and non-cash amounts) is less than 2.

The bank has a first priority security interest in the tangible and intangible assets of Epsilon Energy USA, Inc. to secure any outstanding amounts under the agreement. Under the terms of the agreement, facility, the Company must maintain adhere to the following financial covenants:

- Interest coverage ratio greater than 3 (income adjusted for interest, taxes and non-cash amounts / cash interest expense)
- Current ratio greater than 1 of 1.0 to 1.0 (current assets / current liabilities)
- Leverage ratio of less than 3.5 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 December 31, 2022. December 31, 2023

	Balance at December 31, 2023	Balance at December 31, 2022	Current Borrowing Base	Interest Rate
Revolving line of credit	\$ —	\$ —	\$ 35,000,000	SOFR + 3.25%

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

6.7. 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 Securities

Commencing on March 8, 2022, we implemented a plan to repurchase our issued and outstanding common shares and to return capital to our shareholders. We used cash on hand to fund these repurchases. During the year ended December 31, 2022, we repurchased 982,500 common shares of the maximum of 1,183,410 authorized for repurchase and spent \$6,234,879 under the plan. The repurchased stock had an average price of \$6.32 per share (excluding commissions) and was subsequently retired during the year ended December 31, 2022.

In 2023, we repurchased 190,700 common shares at an average price of \$5.82 per share (excluding commissions) before the plan terminated on March 7, 2023.

Commencing on January 1, 2021, we implemented a plan to repurchase our issued and outstanding common shares. The plan terminated on December 31, 2021. We used cash on hand to fund these repurchases. During the year ended December 31, 2021, we repurchased 534,015 common shares of the maximum of 1,193,000 authorized for repurchase and spent \$2,423,007 under the plan. The repurchased stock had an average price of \$4.51 per share (excluding commissions) and was subsequently retired during the year ended December 31, 2022.

On March 9, 2023, the Epsilon's Board of Directors (the "Board") authorized a new share repurchase program of up to 2,292,644 common shares, representing 10% of the outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$15.0 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, 2023 and will end on March 26, 2024, unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination. During the year ended December 31, 2023, we repurchased 968,149 common shares and spent \$4,940,295 at an average price of \$5.08 per share (excluding commissions) under the new plan.

The previous share repurchase program commenced on March 8, 2022. During the year ended December 31, 2022, we repurchased 982,500 common shares of the maximum of 1,183,410 authorized for repurchase and spent \$6,234,879 under the plan. The repurchased stock had an average price of \$6.32 per share (excluding commissions) and

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

was subsequently retired during the year ended December 31, 2022. In 2023, we repurchased and retired 190,700 common shares at an average price of \$5.82 per share (excluding commissions) before the plan terminated on March 7, 2023.

In 2023, the Company repurchased 1,158,849 shares at an average price of \$5.20 per share (excluding commissions) under the two consecutive repurchase programs.

On March 19, 2024, the Board of Directors authorized a new share repurchase program of up to 2,191,320 common shares, representing 10% of the current outstanding common shares of Epsilon, 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 will commence on March 27, 2023 March 27, 2024 and end on March 26, 2024 March 26, 2025, unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination.

(c) Equity Incentive Plan

Epsilon's board of directors (the "Board") The Board adopted the 2020 Equity Incentive Plan (the "2020 Plan") on July 22, 2020 subject to approval by Epsilon's shareholders at Epsilon's 2020 Annual General and Special Meeting of shareholders, which occurred on September 1, 2020 (the "Meeting"). Shareholders approved the 2020 Plan at the Meeting. Following Epsilon's listing on the NASDAQ Global Market, the Board determined that it is in the best interest of the shareholders to approve a new incentive plan that is compliant with U.S. public company equity plan rules and practices that would replace Epsilon's Amended and Restated 2017 Stock Option Plan (including its predecessors) and the Share Compensation Plan (collectively referred to as the "Predecessor Plans"). No further awards will be granted under the Predecessor Plans.

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 is authorized to issue up to 2,000,000 common shares.

Restricted Stock Awards

For the year ended December 31, 2023, 358,546 restricted common shares with a weighted average market price at grant date of \$5.42 were awarded to the Company's management, employees, and board of directors. For the year ended December 31, 2022, 289,231 restricted common shares of Restricted Stock with a weighted average market price at grant date of \$6.28 were awarded to the Company's officers, employees, and board of directors. For the year ended December 31, 2021, 48,000 common shares of Restricted Stock with a weighted average market price at grant date of \$5.04 were awarded to the Company's board of directors. These shares vest over a three or four-year period, with an equal number of shares being issued per period on the anniversary of the award resolution. The vesting of the shares is contingent on the individuals' continued employment or service. The Company determined the fair value of the granted Restricted Stock-based on the market price of the common shares of the Company on the date of grant.

The following table summarizes restricted stock for the years ended December 31, 2023 and 2022:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Restricted Shares	Weighted Average Remaining Life (years)	Number of Restricted Shares	Weighted Average Remaining Life (years)
Balance non-vested Restricted Stock at beginning of period	298,210	1.74	166,002	1.38
Granted	358,546	1.90	289,231	1.86
Vested	(165,220)	—	(157,023)	—
Balance non-vested Restricted Stock at end of period	491,536	1.74	298,210	1.74

Stock compensation expense for the granted Restricted Stock is recognized over the vesting period. Stock compensation expense recognized during the year ended December 31, 2023 was \$959,525 (during the year ended December 31, 2022, \$776,939). The total value of vested shares during the year ended December 31, 2023 was \$875,014 (during the year ended December 31, 2022: \$1,010,911).

Epsilon Energy Ltd. EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2022 December 31, 2023 and 2021 2022

The following table summarizes restricted stock for the years ended December 31, 2022 and 2021:

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of Restricted Shares	Weighted Average Remaining Life (years)	Number of Restricted Shares	Weighted Average Remaining Life (years)
	Outstanding		Outstanding	
Balance non-vested Restricted Stock at beginning of period	166,002	1.38	290,070	1.60
Granted	289,231	1.86	48,000	1.67
Vested	(157,023)	—	(137,668)	—
Forfeited	—	—	(34,400)	—
Balance non-vested Restricted Stock at end of period	298,210	1.74	166,002	1.38

Stock compensation expense for the granted Restricted Stock is recognized over the vesting period. Stock compensation expense recognized during the year ended December 31, 2022 was \$776,939 (for the year ended December 31, 2021, \$554,249).

At December 31, 2022 December 31, 2023, the Company had unrecognized stock-based compensation related to these shares of \$1,668,564 \$2,651,858 to be recognized over a weighted average weighted-average period of 1.55 1.42 years.

Performance Share Unit Awards ("PSU")

The Company grants historically granted PSUs, which are paid in stock to certain key employees. The PSUs will vest on the last day of the performance period. The number of PSUs that will ultimately vest is based on two performance targets as follows:

- The targets for the PSUs are based on (i) the relative total stockholder return ("TSR") percentile ranking and (ii) the relative cash flow per debt adjusted share – growth ("CFDAS Growth") percentile ranking of the Company, each as compared to the Company's peer group as specified in the award agreement during the applicable one-year performance period ending on December 31.
- Cash Flow per Debt Adjusted Share ("CFDAS") is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) divided by the sum of the 1) (i) the total debt plus the value of preferred stock minus cash and the amount of dividends paid for the year divided by the share price at the end of the year; and 2) (ii) the actual share count at year end.
- The vesting of each PSU Award will be based 50% on TSR performance and 50% based on CFDAS Growth performance.
- The recipient of the award must be employed with the Company at the time of vesting.

The number of shares ultimately issued under these awards can range from zero to 200% of target award amounts at the discretion of the Compensation Committee of the Board of Directors. During the year ended December 31, 2022 December 31, 2023, a total of 31,667 15,833 common shares were vested and issued. vested.

The following table summarizes PSUs for the years ended December 31, 2022 December 31, 2023 and 2021: 2022:

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

	Year ended December 31, 2022		Year ended December 31, 2021		Year ended December 31, 2023		Year ended December 31, 2022	
	Number of	Weighted	Number of	Weighted	Number of	Weighted	Number of	Weighted
	Performance	Average	Performance	Average	Performance	Average	Performance	Average
	Shares	Remaining Life	Shares	Remaining Life	Shares	Remaining Life	Shares	Remaining Life
	Outstanding	(years)	Outstanding	(years)	Outstanding	(years)	Outstanding	(years)
Balance non-vested PSUs at beginning of period	151,500	3.84	193,167	1.60	15,833	1.00	151,500	3.84
Granted	—	—	20,834	5.04				
Vested	(135,667)	—	(62,501)	—	(15,833)	—	(135,667)	—
Balance non-vested PSUs at end of period	<u>15,833</u>	<u>1.00</u>	<u>151,500</u>	<u>3.84</u>	<u>—</u>	<u>—</u>	<u>15,833</u>	<u>1.00</u>

Stock compensation expense for the granted PSUs is recognized over the vesting period. Stock compensation expense recognized during the year ended **December 31, 2022** **December 31, 2023** related to PSUs was **\$244,087** (for **\$58,737** (during the year ended **December 31, 2021** **December 31, 2022**, **\$401,835**) **\$244,087**). The total value of vested shares during the year ended **December 31, 2023** was **\$80,432** (during the year ended **December 31, 2022**: **\$833,027**).

At **December 31, 2022** **December 31, 2023**, the Company had **no** unrecognized stock-based compensation related to these **shares of \$63,328** to be recognized over a weighted average period of **0.63** shares. During the years (at **December 31, 2021**: **\$310,790** over **1.01** years) ended **December 31, 2023** and **2022**, the Company awarded no PSUs.

Stock Options

As of **December 31, 2022** **December 31, 2023**, the Company had outstanding stock options covering **70,000** **57,500** common shares at an overall average exercise price of **\$5.03** per common share to **directors**, officers and employees of the Company and its subsidiaries. These **70,000** **57,500** options have a **weighted average** **weighted-average** expected remaining term of approximately **1.05** **0.05** years.

The following table summarizes stock option activity for the years ended **December 31, 2022** **December 31, 2023** and **2021**; **2022**:

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
	Exercise	Exercise	Exercise	Exercise
	Outstanding	Price	Outstanding	Price ⁽¹⁾
Exercise price in US\$				
Balance at beginning of period	218,750	\$ 5.28	245,000	\$ 5.27
Exercised	(138,750)	\$ 5.38	(16,250)	\$ 5.25
Expired/Forfeited	(10,000)	\$ 5.51	(10,000)	\$ 5.50
Balance at period-end	<u>70,000</u>	<u>\$ 5.03</u>	<u>218,750</u>	<u>\$ 5.28</u>
Exercisable at period-end	<u>70,000</u>	<u>\$ 5.03</u>	<u>218,750</u>	<u>\$ 5.28</u>

At **December 31, 2022**, the Company had unrecognized stock-based compensation related to these options of **nil** (for the year ended **December 31, 2021**: **nil**). The aggregate intrinsic value at **December 31, 2022** was **\$112,000** (at **December 31, 2021**: **nil**).

During the years ended **December 31, 2022** and **2021**, the Company awarded no stock options.

Epsilon Energy Ltd. EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended **December 31, 2022** **December 31, 2023** and **2021 2022**

	Year ended December 31, 2023		Year ended December 31, 2022	
	Weighted		Weighted	
	Number of	Average	Number of	Average
	Options	Exercise	Options	Exercise
<i>Exercise price in US\$</i>	Outstanding	Price	Outstanding	Price (1)
Balance at beginning of period	70,000	\$ 5.03	218,750	\$ 5.28
Exercised	(12,500)	\$ 5.03	(138,750)	\$ 5.38
Expired/Forfeited	—	\$ —	(10,000)	\$ 5.51
Balance at period-end	57,500	\$ 5.03	70,000	\$ 5.03
Exercisable at period-end	57,500	\$ 5.03	70,000	\$ 5.03

At December 31, 2023 and 2022, the Company had unrecognized stock-based compensation related to these options of nil. The total intrinsic value of the outstanding options at December 31, 2023 was \$2,875 (at December 31, 2022: \$112,000). The total intrinsic value of options exercised during the year ended December 31, 2023 was \$5,500 (during the year ended December 31, 2022: \$127,780).

During the years ended December 31, 2023 and 2022, the Company awarded no stock options.

The following table summarizes information for stock options outstanding at **December 31, 2022** **December 31, 2023**:

			Weighted				Weighted
	Number of	Number of	Option	Average	Number of	Number of	Average
	Options	Options	Pricing	Remaining	Options	Options	Remaining
	Outstanding	Exercisable	Model	Contractual Life	Outstanding	Exercisable	Contractual Life
<i>Exercise Price</i>			Valuations	(in years)			(in years)
As of December 31, 2022							
As of December 31, 2023							
\$5.03	70,000	70,000	\$ 165,185	1.05	57,500	57,500	0.05
Total	70,000	70,000	\$ 165,185	1.05	57,500	57,500	0.05

The value of the options was recorded as stock-based compensation expense, with an offsetting amount to additional paid-in capital based on the vesting terms. Stock-based compensation expense for the options, for the years ended **December 31, 2022** **December 31, 2023** and 2022 was nil (for the year ended December 31, 2021: nil). nil.

7.8. Revenue Recognition

Revenues are comprised primarily 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. Also included to a much lesser degree is natural gas, crude oil and NGLs from Oklahoma.

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 \$1.4 million and \$1.5 million, respectively, for the years ended December 31, 2023 and 2022.

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

The following table details revenue for the years ended December 31, 2022 December 31, 2023 and 2021: 2022:

	Year Ended December 31,		Year Ended December 31,	
	2022	2021	2023	2022
Operating revenue				
Natural gas	\$ 56,948,734	\$ 31,708,185	\$14,864,214	\$56,948,734
Natural gas liquids	1,733,130	1,053,486	984,418	1,733,130
Oil and condensate	3,195,333	1,776,496	5,090,589	3,195,333
Gathering and compression fees ⁽¹⁾	8,085,512	7,865,825	9,790,531	8,085,512
Total operating revenue	\$ 69,962,709	\$ 42,403,992	\$30,729,752	\$69,962,709

⁽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, operations and comprehensive income.

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.

Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

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 transmission and compression has occurred. As a result, the Company must estimate the amount of production that was transmitted 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.

Allowance for Doubtful Accounts Credit Losses

The Company records an allowance for doubtful accounts credit losses on a case-by-case basis once there is evidence that collection is not probable. At December 31, 2022, December 31, 2023 and 2022, there were no accounts for which collection was not probable.

The following table details accounts receivable as of December 31, 2022, December 31, 2023 and 2021, 2022:

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022	December 31, 2021
Accounts receivable					
Natural gas and oil sales	\$ 5,696,419	\$ 2,996,344	\$4,327,886	\$5,696,419	\$2,996,344
Joint interest billing	20,454	60,134	17,476	20,454	60,134
Gathering and compression fees	1,483,956	1,539,976	1,543,239	1,483,956	1,539,976
Other	557	477			
Commodity contract			72,075	—	—
Interest			54,772	557	477
Total accounts receivable	\$ 7,201,386	\$ 4,596,931	\$6,015,448	\$7,201,386	\$4,596,931

60

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

8.9. Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes certain transactions that have generally been reported in the consolidated statements of changes in shareholders' equity. The activity in Accumulated Other Comprehensive Income accumulated other comprehensive income during the years ended December 31, 2022, December 31, 2023 and 2021, 2022 consisted of the following:

	Year Ended December 31,	
	2022	2021
Balance at beginning of period	\$ 9,818,605	\$ 9,820,647

Translation (loss) gain	(44,054)	(2,042)
Balance at end of period	\$ 9,774,551	\$ 9,818,605

60

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

	Year Ended December 31,	
	2023	2022
Balance at beginning of period	\$ 9,774,551	\$ 9,818,605
Translation loss	(3,872)	(44,054)
Unrealized gain on securities	1,598	—
Balance at end of period	\$ 9,772,277	\$ 9,774,551

9.10. Income Taxes

Net income (loss) before income taxes is as follows for the periods indicated:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Foreign	\$ (700,255)	\$ (571,646)	\$ (1,167,609)	\$ (700,255)
U.S.	48,212,421	16,639,671	11,313,209	48,212,421
	\$ 47,512,166	\$ 16,068,025	\$10,145,600	\$47,512,166

We file a federal income tax return in the United States, Canada, and various state and local jurisdictions.

We believe that we have appropriate support for the income tax positions taken and to be taken on the Company's tax returns and that the accruals for tax liabilities are adequate for all open years based on our assessment of many 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, 2018** **December 31, 2020** through **December 31, 2022** **December 31, 2023**.

The following tables present the Company's current and deferred tax expense (benefit) for the periods indicated:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Current:				
Foreign			\$ 630,722	\$ —
Federal	\$ 7,788,302	\$ 3,152,866	1,271,862	7,788,302

State	3,657,231	1,485,054	361,314	3,657,231
Total current income tax expense	11,445,533	4,637,920	2,263,898	11,445,533
Deferred:				
Federal	1,587,935	84,631	1,013,452	1,587,935
State	(875,981)	(282,043)	(76,903)	(875,981)
Total deferred tax expense	711,954	(197,412)	936,549	711,954
Income tax expense	\$ 12,157,487	\$ 4,440,508	\$3,200,447	\$12,157,487

The following table presents the reconciliation of our income taxes calculated at the statutory federal tax rate to the income tax provision in our financial statements. Our effective tax rate for 2022 2023 differs from the statutory rate primarily due to states taxes, and foreign withholding taxes, & the recognition of a valuation allowance on our Canadian and Oklahoma state deferred tax assets. Our effective tax rate for 2021 differs from the statutory rate primarily due to states taxes and the recognition of a valuation allowance on our Canadian and Oklahoma state deferred tax assets.

	Year Ended		Year Ended	
	December 31,	Effective	December 31,	Effective
	2022	Tax Rate	2021	Tax Rate
Income tax provision computed at the statutory federal tax rate	\$ 9,977,555	21.00 %	\$ 3,377,625	21.00 %
Difference in Canadian and U.S. tax rate	(14,005)	(0.03)%	(11,433)	(0.07)%
Adjustment of Canadian deferred tax balances	39,839	0.08 %	762,000	4.74 %
Valuation allowance on Canadian loss	121,220	0.26 %	(688,388)	(4.28)%
Return to provision adjustment	(4,538)	(0.01)%	57,875	0.36 %
State taxes	2,304,218	4.85 %	1,057,924	6.58 %
State valuation allowance	(107,030)	(0.23)%	(107,545)	(0.67)%
Miscellaneous other items	(159,772)	(0.34)%	(7,550)	(0.05)%
Income tax expense	\$ 12,157,487	25.58 %	\$ 4,440,508	27.61 %

Deferred income taxes primarily represent the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Epsilon Energy Ltd. EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended **December 31, 2022** **December 31, 2023** and **2021**

Net deferred tax liabilities consisted of the following at December 31, 2022 and 2021:

	As of December 31,	
	2022	2021
Deferred tax assets:		
State net operating loss carryforwards	\$ 313,018	\$ 244,582
Canadian net operating loss carryforwards	11,113,319	11,669,601
ARO	702,522	796,339
Unrealized derivatives/other	92,785	255,852
Gross deferred tax assets	12,221,644	12,966,374
Valuation allowance	(11,158,602)	(11,821,914)
Total deferred tax assets	1,063,042	1,144,460
Deferred tax liabilities:		
Oil and gas property	(9,336,638)	(8,558,064)

Partnership	(2,034,995)	(2,491,836)
Unrealized derivatives/other	(308,803)	—
Gross deferred tax liabilities	(11,680,436)	(11,049,900)
Net deferred tax liability	\$ (10,617,394)	\$ (9,905,440)

As of December 31, 2022, we have no U.S. federal net operating loss carry-forwards and approximately \$9.9 million of state net operating loss carry-forwards, of which \$0.3 million expires in 2037 and the remaining can be carried forward indefinitely. These loss carryforwards may reduce future taxable income, however, the extent of which may be limited due to any Internal Revenue Code Section 382 limitation. A state valuation allowance of \$0.05 million is applicable to the net state deferred tax assets attributable to Oklahoma because of objective negative evidence on the cumulative loss incurred in the state over the three-year period ended December 31, 2022. As of December 31, 2022, we have \$40.6 million of Canadian net operating loss carry-forwards. A separate valuation allowance of \$11.1 million attributable to Canadian net operating losses and other tax carryovers is recorded because it is more likely than not to be utilized.

On August 16, 2022, legislation commonly known as the Inflation Reduction Act was signed into law. Among other things, the Inflation Reduction Act includes a 1% excise tax on corporate stock repurchases applicable to repurchases after December 31, 2022, and also a new minimum tax based on book income. While we do not currently expect the Inflation Reduction Act to have a material impact on our effective tax rate in 2022 our analysis of the impact of the Inflation Reduction Act on us is ongoing, and it is possible that the Inflation Reduction Act (or implementing regulations and other guidance, which have not yet been issued) could adversely impact our current and deferred federal tax liability in future periods.

The Company does not have any material uncertain tax positions. The Company recognizes interest expense and penalties related to the uncertain tax position in the income tax expense line in the accompanying consolidated statements of operations and comprehensive loss. Accrued interest and penalties are included in other non-current liabilities in the consolidated balance sheets and were \$0 as of December 31, 2022 and 2021.

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

10. Commitments state deferred tax assets. Our effective tax rate for 2022 differs from the statutory rate primarily due to states taxes & the recognition of a valuation allowance on our Canadian and Contingencies Oklahoma state deferred tax assets.

As a result of the adoption of Leases (Topic 842), the Company recognized an operating lease as of December 31, 2022 summarized in the following table (in thousands):

	<u>Amount</u>
Asset	
Operating lease right-of-use assets	\$ 31,383
Total operating lease right-of-use assets	<u>\$ 31,383</u>
Liabilities	
Operating lease liabilities	\$ 35,299
Total operating lease liabilities	<u>\$ 35,299</u>
Operating lease costs	\$ 32,097

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 106,798
Weighted average remaining lease term - operating lease	0.33
Weighted average discount rate (annualized) - operating lease	8.09%

	Year Ended		Year Ended	
	December 31,	Effective	December 31,	Effective
	2023	Tax Rate	2022	Tax Rate
Income tax provision computed at the statutory federal tax rate	\$ 2,130,576	21.00 %	\$ 9,977,555	21.00 %
Difference in Canadian and U.S. tax rate	(23,352)	(0.23)%	(14,005)	(0.03)%
Adjustment of Canadian deferred tax balances	(128,552)	(1.27)%	39,839	0.08 %
Valuation allowance on Canadian loss	397,102	3.91 %	121,220	0.26 %
Return to provision adjustment	5,244	0.05 %	(4,538)	(0.01)%
State taxes	108,401	1.07 %	2,304,218	4.85 %
State valuation allowance	100,133	0.99 %	(107,030)	(0.23)%
Foreign withholding on dividends	630,722	6.22 %	—	- %
Miscellaneous other items	(19,827)	(0.20)%	(159,772)	(0.34)%
Income tax expense	\$ 3,200,447	31.54 %	\$ 12,157,487	25.58 %

Rent expense Deferred income taxes primarily represent the net tax effect of temporary differences between the carrying amounts of assets and liabilities for operating leases financial reporting purposes and the amounts used for the year ended December 31, 2021 was \$0.18 million as presented in other general and administrative expenses in the consolidated statements of operations and comprehensive income. income tax purposes.

The following is a maturity analysis Net deferred tax liabilities consisted of the annual undiscounted cash flows of the operating lease liability as of December 31, 2022; following at December 31, 2023 and 2022:

Amounts due in the year ended December 31,	Operating Leases
2023	\$ 36,013
Total minimum lease payments	36,013
Less: effect of discounting	714
Present value of future minimum lease payments	35,299
Less: current obligations under leases	35,299
Long-term lease obligations	\$ —

	As of December 31,	
	2023	2022
Deferred tax assets:		
State net operating loss carryforwards	\$ 396,416	\$ 313,018
Canadian net operating loss carryforwards	11,510,422	11,113,319
ARO	865,214	702,522
Lease Liabilities	139,153	—
Unrealized derivatives/other	89,758	92,785
Gross deferred tax assets	13,000,963	12,221,644
Valuation allowance	(11,655,838)	(11,158,602)
Total deferred tax assets	1,345,125	1,063,042
Deferred tax liabilities:		
Oil and gas property	(10,765,374)	(9,336,638)
Partnership	(1,752,767)	(2,034,995)
ROU Assets	(109,169)	—
Unrealized derivatives/other	(271,758)	(308,803)
Gross deferred tax liabilities	(12,899,068)	(11,680,436)

Net deferred tax liability	\$ (11,553,943)	\$ (10,617,394)
----------------------------	-----------------	-----------------

The Company's As of December 31, 2023, we have no federal net operating loss carry-forwards and approximately \$12.5 million of state net operating loss carry-forwards, of which \$0.3 million expires in 2037 and the remaining can be carried forward indefinitely. These loss carryforwards may reduce future minimum lease commitments as taxable income, however, the extent of December 31, 2021 are summarized which may be limited due to any IRC Section 382 limitation. A state valuation allowance of \$0.15 million is applicable to the net state deferred tax assets attributable to Oklahoma because of objective negative evidence on the cumulative loss incurred in the following table: state over the three-year period ended December 31, 2023. As of December 31, 2023, we have \$42.1 million of Canadian net operating loss carry-forwards, which will expire between 2027-2043. A separate valuation allowance of \$11.5 million attributable to Canadian net operating losses and other tax carryovers is recorded because it is more likely than not to be utilized. The net change in the total valuation allowance for each of the years ended December 31, 2023 and 2022 was an increase of \$0.50 million and a decrease of \$0.66 million, respectively.

Year ended December 31,	Payments
2022	\$ 106,797
2023	36,013
	<u>\$ 142,810</u>

On August 16, 2022, legislation commonly known as the Inflation Reduction Act was signed into law. Among other things, the Inflation Reduction Act includes a 1% excise tax on corporate stock repurchases applicable to repurchases

63 62

Epsilon Energy Ltd. EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2022 December 31, 2023 and 2021 2022

The expiration date of the current lease is April 2023 and the Company has chosen not to extend that lease. As of after December 31, 2022, the Company entered into and also a new office lease that commenced minimum tax based on March 1, 2023. book income. The lease is for 70 months with future lease payments estimated Inflation Reduction Act did not have a material impact on our effective tax rate.

The Company does not have any material uncertain tax positions. The Company recognizes interest expense and penalties related to be approximately \$0.85 million. There the uncertain tax position in the income tax expense line in the accompanying consolidated statements of operations and comprehensive income. Accrued interest and penalties are no included in other pending leases, non-current liabilities in the consolidated balance sheets and no lease arrangements in which the Company is the lessor, were \$0 as of December 31, 2023 and 2022.

11. Commitments and Contingencies

The Company also enters into commitments for capital expenditures in advance of the expenditures being made. As of December 31, 2022 December 31, 2023, we had our commitments of \$0.8 million for capital expenditures, expenditures were nil.

Litigation

On March 10, 2021, Epsilon filed a complaint against Chesapeake Appalachia, LLC ("Chesapeake") in the United States District Court for the Middle District of Pennsylvania, Scranton, Pennsylvania ("Middle District"). Epsilon claims that Chesapeake has breached a settlement agreement and several operating agreements ("JOAs") to which Epsilon and Chesapeake are parties. Epsilon asserts that Chesapeake has failed to cooperate with Epsilon's efforts to develop resources in the Auburn Development, located in Northeast North-Central Pennsylvania, as required under both the settlement agreement and JOAs.

Epsilon requested a preliminary injunction but was unsuccessful in obtaining that injunction. Epsilon filed a motion to amend its original Complaint. Chesapeake opposed. The Court ruled in Epsilon's favor and allowed Epsilon's amendment. Chesapeake moved to dismiss the

amended Complaint. The Court granted the motion to dismiss on a narrow issue without prejudice to Epsilon's right to file a new lawsuit based on new proposals made after the Court's decision. Epsilon filed a motion for reconsideration of that decision, but the court denied the motion for reconsideration on January 18, 2022.

Epsilon filed a notice of appeal on February 15, 2022 challenging both the motion to dismiss and motion for reconsideration decisions. Chesapeake filed a cross-appeal on March 1, 2022. A briefing schedule was set and briefing closed October 14, 2022. Oral argument was held in January 2023. A decision on the appeal is not expected until mid-2023.

Epsilon re-filed a complaint against Chesapeake District Court's rulings in the Middle District on May 9, 2022. Epsilon generally asserts similar claims as in the previous suit, pursuing declaratory judgment claims regarding Chesapeake's obligation to Epsilon to cooperate with Epsilon's efforts in the Auburn Development and regarding Chesapeake's obstruction of Epsilon's efforts with the Pennsylvania Department of Environmental Protection permitting process but not based on specific well proposals. Chesapeake filed a motion to stay pending a decision on case. Following the Third Circuit appeal, which Circuit's ruling to remand the case back to District court, Epsilon has sought and was granted. The matter is stayed pending granted a decision from dismissal of the Third Circuit. case without prejudice in September 2023.

63

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

11, 12. Leases

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

	December 31, 2023	December 31, 2022
Asset		
Operating lease right-of-use assets	\$ -	\$ 31,383
Operating lease right-of-use assets, long term	441,987	-
Total operating lease right-of-use assets	<u>\$ 441,987</u>	<u>\$ 31,383</u>
Liabilities		
Operating lease liabilities	\$ 86,473	\$ 35,299
Operating lease liabilities, long term	476,911	-
Total operating lease liabilities	<u>\$ 563,384</u>	<u>\$ 35,299</u>
Operating lease costs	\$ 144,490	\$ 32,097
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 27,010	\$ 106,798
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 535,149	\$ 31,383
Weighted average remaining lease term (years) - operating lease	3.00	0.33
Weighted average discount rate (annualized) - operating lease	8.25%	8.09%

The Company had one office lease that expired in April 2023. 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 \$0.14 million and \$0.03 for the years ended December 31, 2023 and 2022, 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 December 31, 2023 are as follows:

	Operating Leases
2023	\$ —
2024	134,750
2025	173,550
2026	177,021
2027	180,492
Thereafter	183,963
Total minimum lease payments	849,776
Less: imputed interest	(286,392)
Present value of future minimum lease payments	563,384
Less: current obligations under leases	(86,473)
Long-term lease obligations	\$ 476,911

13. 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

64

EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued) For the years ended December 31, 2023 and 2022

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 are as follows:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Net income available to shareholders	\$ 35,354,679	\$ 11,627,517		
Net income			\$6,945,153	\$35,354,679

64

Epsilon Energy Ltd.

Notes to the Consolidated Financial Statements (Continued) For the years ended December 31, 2022 and 2021

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

Year ended December 31,	Year ended December 31,
-------------------------	-------------------------

	2022	2021	2023	2022
Basic weighted-average number of shares outstanding	23,319,633	23,705,193	22,496,772	23,319,633
Dilutive stock options	15,831	—	4,431	15,831
Unvested time-based restricted shares	—	82,958		
Unvested performance-based restricted shares	70,725	68,951	10,444	70,725
Diluted weighted average shares outstanding	23,406,189	23,857,102		
Diluted weighted-average shares outstanding			22,511,647	23,406,189

We excluded the following shares from the diluted EPS net income per share because their inclusion would have been anti-dilutive.

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Anti-dilutive options	54,169	218,750	53,069	54,169
Anti-dilutive unvested time-based restricted shares	273,448	83,044	331,810	273,448
Anti-dilutive unvested performance-based restricted shares	28,519	82,549	5,389	28,519
Total Anti-dilutive shares	356,136	384,343	390,268	356,136

12.

14. 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 profit income or loss as shown in the table below. Interest expense, interest income and income taxes are managed separately on a group basis.

The Company's reportable segments are as follows:

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

Epsilon Energy Ltd. EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2022 December 31, 2023 and 2021 2022

Segment activity as of, and for the years ended December 31, 2022 December 31, 2023 and 2021 2022 is as follows:

	Upstream	Gas Gathering	Corporate	Elimination	Consolidated
As of and for the year ended December 31, 2023					
Operating revenue					
Natural gas	\$ 14,864,214	\$ —	\$ —	\$ —	\$ 14,864,214
Natural gas liquids	984,418	—	—	—	984,418
Oil and condensate	5,090,589	—	—	—	5,090,589

Gathering and compression fees	—	11,166,410	—	(1,375,879)	9,790,531
Total operating revenue (1)	20,939,221	11,166,410	—	(1,375,879)	30,729,752
Operating costs					
Operating costs (2)	9,231,031	2,459,694	7,311,496	(1,375,879)	17,626,342
Depletion, depreciation, amortization and accretion	6,638,882	1,046,202	—	—	7,685,084
Operating income (loss)	5,069,308	7,660,514	(7,311,496)	—	5,418,326
Other income (expense)					
Interest income	—	—	1,673,241	—	1,673,241
Interest expense	(80,379)	—	—	—	(80,379)
Gain on derivative contracts	3,130,055	—	—	—	3,130,055
Other income	4,083	—	274	—	4,357
Other income (expense), net	3,053,759	—	1,673,515	—	4,727,274
Net income (loss) before income tax expense	\$ 8,123,067	\$ 7,660,514	\$ (5,637,981)	\$ —	\$ 10,145,600
Segment assets					
Current assets, net	\$ —	\$ —	\$ 41,598,796	\$ —	\$ 41,598,796
Proved properties	46,555,301	—	—	—	46,555,301
Unproved properties	25,504,873	—	—	—	25,504,873
Gathering system	—	7,198,277	—	—	7,198,277
Other property and equipment	2,743,379	—	—	—	2,743,379
Operating lease right-of-use asset	—	—	441,987	—	441,987
Total segment assets	\$ 74,803,553	\$ 7,198,277	\$ 42,040,783	\$ —	\$ 124,042,613
Capital expenditures (3)	\$ 20,175,495	\$ 99,271	\$ —	\$ —	\$ 20,274,766
As of and for the year ended December 31, 2022					
Operating revenue					
Natural gas	\$ 56,948,734	\$ —	\$ —	\$ —	\$ 56,948,734
Natural gas liquids	1,733,130	—	—	—	1,733,130
Oil and condensate	3,195,333	—	—	—	3,195,333
Gathering and compression fees	—	9,609,172	—	(1,523,660)	8,085,512
Total operating revenue (1)	61,877,197	9,609,172	—	(1,523,660)	69,962,709
Operating costs					
Operating costs	8,440,194	2,287,763	7,346,438	(1,523,660)	16,550,735
Depletion, depreciation, amortization and accretion	5,375,225	1,063,286	—	—	6,438,511
Operating income (loss)	48,061,778	6,258,123	(7,346,438)	—	46,973,463
Other income (expense)					
Interest income	—	—	452,877	—	452,877
Interest expense	(50,782)	—	—	—	(50,782)
Loss on derivative contracts	236,077	—	—	—	236,077
Other (expense) income	(100,315)	—	846	—	(99,469)
Other income (expense), net	84,980	—	453,723	—	538,703
Net income (loss) before income tax expense	\$ 48,146,758	\$ 6,258,123	\$ (6,892,715)	\$ —	\$ 47,512,166
Segment assets					
Current assets, net	\$ —	\$ —	\$ 56,002,671	\$ —	\$ 56,002,671
Proved properties	40,596,972	—	—	—	40,596,972
Unproved properties	18,169,157	—	—	—	18,169,157
Gathering system	—	8,138,261	—	—	8,138,261

Other property and equipment	923,799	—	—	—	923,799
Total segment assets	\$ 59,689,928	8,138,261	56,002,671	—	123,830,860
Capital expenditures (3)	\$ 6,785,930	163,915	—	—	6,949,845

	Upstream	Gas Gathering	Corporate	Elimination	Consolidated
As of and for the year ended December 31, 2022					
Operating revenue					
Natural gas	\$ 56,948,734	\$ —	\$ —	\$ —	\$ 56,948,734
Natural gas liquids	1,733,130	—	—	—	1,733,130
Oil and condensate	3,195,333	—	—	—	3,195,333
Gathering and compression fees	—	9,609,172	—	(1,523,660)	8,085,512
Total operating revenue (1)	61,877,197	9,609,172	—	(1,523,660)	69,962,709
Operating costs					
Operating costs	15,079,783	2,287,763	706,849	(1,523,660)	16,550,735
Depletion, depreciation, amortization and accretion	5,375,225	1,063,286	—	—	6,438,511
Operating income	41,422,189	6,258,123	(706,849)	—	46,973,463
Other income (expense)					
Interest income	447,128	—	5,749	—	452,877
Interest expense	(50,782)	—	—	—	(50,782)
Gain (loss) on derivative contracts	236,077	—	—	—	236,077
Other (expense) income	(100,315)	—	846	—	(99,469)
Other income (expense), net	532,108	—	6,595	—	538,703
Net income before income tax expense	\$ 41,954,297	6,258,123	(700,254)	—	47,512,166
Segment assets					
Capital expenditures (2)	6,785,930	163,914	—	—	6,949,844
Proved properties	40,596,972	—	—	—	40,596,972
Unproved properties	18,169,157	—	—	—	18,169,157
Gathering system	—	8,138,261	—	—	8,138,261
Operating lease right-of-use asset	31,383	—	—	—	31,383
Other property and equipment	923,799	—	—	—	923,799
As of and for the year ended December 31, 2021					
Operating revenue					
Natural gas	\$ 31,708,185	—	—	—	\$ 31,708,185
Natural gas liquids	1,053,486	—	—	—	1,053,486
Oil and condensate	1,776,496	—	—	—	1,776,496
Gathering and compression fees	—	9,460,508	—	(1,594,683)	7,865,825
Total operating revenue (1)	34,538,167	9,460,508	—	(1,594,683)	42,403,992
Operating costs					
Operating costs	13,867,817	2,321,329	570,192	(1,594,683)	15,164,655
Depletion, depreciation, amortization and accretion	5,278,617	1,348,399	—	—	6,627,016
Operating income	15,391,733	5,790,780	(570,192)	—	20,612,321
Other income (expense)					
Interest income	38,865	—	—	—	38,865
Interest expense	(101,382)	—	—	—	(101,382)
Gain (loss) on derivative contracts	(4,482,909)	—	—	—	(4,482,909)
Other (expense) income	2,585	—	(1,455)	—	1,130

Other income (expense), net	(4,542,841)	—	(1,455)	—	(4,544,296)
Net income before income tax expense	\$ 10,848,892	5,790,780	(571,647)	—	16,068,025
Segment assets	\$ 85,828,508	13,506,775	127,311	—	99,462,594
Capital expenditures (2)	4,638,448	272,442	—	—	4,910,890
Proved properties	35,551,441	—	—	—	35,551,441
Unproved properties	21,700,926	—	—	—	21,700,926
Gathering system	—	9,031,137	—	—	9,031,137
Other property and equipment	946,866	—	—	—	946,866

66

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

- (1) Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the years ended December 31, 2022 December 31, 2023 and 2021 2022 have been eliminated upon consolidation. For the year ended December 31, 2023, we sold natural gas to 33 unique customers. Direct Energy Business Marketing, LLC and EQT Energy, LLC each accounted for 10% or more of our total revenue. For the year ended December 31, 2022, we sold natural gas to 26 unique customers. Direct Energy Business Marketing, LLC and EQT Energy, LLC each accounted for 10% or more of our total revenue. For the year

66

Epsilon Energy Ltd.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2022 and 2021

ended December 31, 2021, we sold natural gas to 30 unique customers. Direct Energy Business Marketing, LLC and SWN Energy Services Company, LLC each accounted for 10% or more of our total revenue.

- (2) Operating expenses for the year ended December 31, 2023 includes loss on the sale of Oklahoma assets of \$1,449,871.
- (3) 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 installation expansion, completion, and maintenance of additional the gathering facilities. and compression facility.

13, 15. 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 by securing fixed price 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 **does do** its counterparties 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 production and related cash flows. The natural gas 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 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 consolidated statements of operations and comprehensive income. The related cash flow impact is reflected in cash flows from operating activities. During 2023, Epsilon recognized gains on financial commodity derivative contracts of \$3,130,055. This amount included cash received on the settlement of these contracts of \$3,251,890. During 2022, Epsilon recognized gains on financial commodity derivative contracts of \$236,077. This amount included settlements cash paid on the settlement of these contracts of \$1,225,837. For 2021, Epsilon recognized losses on financial commodity derivative contracts of \$4,482,909. This amount included settlements of these contracts of \$4,243,085.

Commodity Derivative Contracts

At December 31, 2023, the Company had outstanding NYMEX HH swaps totaling 1.905 Bcf with a weighted average strike price of \$3.25 and Tennessee Z4 basis swaps totaling 1.905 Bcf with a weighted average strike price of (\$1.10) to hedge a portion of expected volumes for the contract period of January 2024 to October 2024. At December 31, 2022, the Company had outstanding NYMEX HH swaps totaling 1.07 Bcf and Tennessee Z4 basis swaps totaling 1.07 Bcf outstanding. At December 31, 2021, Epsilon had two natural gas commodity two-way costless collar contracts totaling 0.59 Bcf outstanding.

	Fair Value of Derivative	
	Assets	
	December 31,	December 31,
	2022	2021
Current		
NYMEX Henry Hub swap	\$ 1,219,865	\$ —
Tennessee Z4 basis swap	181,775	—
Two-way costless collar	—	13,312
	<u>\$ 1,401,640</u>	<u>\$ 13,312</u>

Epsilon Energy Ltd. EPSILON ENERGY LTD.

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2022 December 31, 2023 and 2021 2022

	Fair Value of Derivative	
	Liabilities	
	December 31,	December 31,
	2022	2021
Current		
Tennessee Z4 basis swap	\$ (179,550)	\$ —
Two-way costless collar	—	(253,136)
	<u>\$ (179,550)</u>	<u>\$ (253,136)</u>

Net Fair Value of Derivatives	\$ 1,222,090	\$ (239,824)
Fair Value of Derivative Assets		
	December 31, 2023	December 31, 2022
Current		
NYMEX Henry Hub swap	\$ 1,353,668	\$ 1,219,865
Tennessee Z4 basis swap	112,719	181,775
	\$ 1,466,386	\$ 1,401,640
Fair Value of Derivative Liabilities		
	December 31, 2023	December 31, 2022
Current		
Tennessee Z4 basis swap	(366,131)	(179,550)
	\$ (366,131)	\$ (179,550)
Net Fair Value of Derivatives	\$ 1,100,255	\$ 1,222,090

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

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Fair value of asset (liability), beginning of the period	\$ (239,824)	\$ —	\$ 1,222,090	\$ (239,824)
Gains (losses) on derivative contracts included in earnings	236,077	(4,482,909)		
Gains on derivative contracts included in earnings			3,130,055	236,077
Settlement of commodity derivative contracts	1,225,837	4,243,085	(3,251,890)	1,225,837
Fair value of asset (liability), end of the period	\$ 1,222,090	\$ (239,824)		
Fair value of asset, end of the period			\$ 1,100,255	\$ 1,222,090

The following table presents the fair value of derivatives, as presented in the Consolidated Balance Sheets, on a net basis as they are subject to master netting arrangements:

	December 31, 2023			December 31, 2022		
	Gross Fair	Amounts	Net Fair	Gross Fair	Amounts	Net Fair
	Value	Netted	Value	Value	Netted	Value
Derivative Assets						
Fair value of derivatives	\$ 1,466,386	\$ (247,361)	\$ 1,219,025	\$ 1,401,640	\$ (179,550)	\$ 1,222,090
Derivative Liabilities						
Fair value of derivatives	\$ (366,131)	\$ 247,361	\$ (118,770)	\$ (179,550)	\$ 179,550	\$ -

14.

16. 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 net present value of its total asset retirement obligations to be \$2.8 \$3.5 million as of December 31, 2022 December 31, 2023 (\$2.8 million at December 31, 2021) based on a total net future undiscounted liability of approximately \$7.4 million (\$7.4 million at December 31, 2021 December 31, 2022). Each year we review, and to the extent necessary, revise our asset retirement obligations estimates. estimates in accordance with recent activity and current service costs.

68

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

The following table presents the activity in Epsilon's asset retirement obligations for the periods indicated:

	Year Ended December 31, 2022	Year ended December 31, 2021	Year Ended December 31, 2023	Year ended December 31, 2022
Balance beginning of period	\$ 2,833,656	\$ 3,150,243	\$ 2,780,237	\$ 2,833,656
Liabilities acquired	12,053	7,009	12,437	12,053
Liabilities disposed of	(25,835)	(381,346)	(46,961)	(25,835)
Wells plugged and abandoned	(118,260)	(31,945)	(509,802)	(118,260)
Change in estimates	—	(8,299)	1,178,142	—
Accretion	78,623	97,994	88,899	78,623
Balance end of period	\$ 2,780,237	\$ 2,833,656	\$ 3,502,952	\$ 2,780,237

17. Fair Value Measurements

The methodologies used to determine the fair value of our financial assets and liabilities at December 31, 2023 were the same as those used at December 31, 2022.

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.

The Company has investments in U.S. Treasury bills, all of which mature over a period of 3 and 12 months and are classified as short term investments. The U.S. Treasury bills are carried at fair value. The U.S. Treasury bills are classified within Level 1 of the fair value hierarchy.

Commodity derivative instruments consist of NYMEX HH swap and basis swap contracts for natural gas. 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.

	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)

	December 31, 2022				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
Assets					
Derivative contracts	\$ —	\$ 1,401,640	\$ —	\$ (179,550)	\$ 1,222,090
Cash equivalents	\$ 7,711,118	\$ —	\$ —	\$ —	\$ 7,711,118
Liabilities					
Derivative contracts	\$ —	\$ (179,550)	\$ —	\$ 179,550	\$ —

69

EPSILON ENERGY LTD.
Notes to the Consolidated Financial Statements (Continued)
For the years ended December 31, 2023 and 2022

18. 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 invested in U.S. Treasury bills. 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 December 31, 2023 and 2022, we determined that our allowance for credit loss was nil.

19. Subsequent Events

On January 30, 2024, the Company repurchased 248,700 shares at \$4.82 per share (excluding commissions) under the existing share repurchase plan.

On February 27, 2024 the Company closed an acquisition in the Permian Basin in Ector County, Texas. The acquired assets are a 25% working interest in 3 producing wells and 3,246 gross undeveloped acres, in partnership with the same operator of the Company's existing assets in Texas. The effective date for the transaction was (i) February 1, 2024 with respect to the leases and (ii) March 1, 2024 with respect to the wells. The total consideration paid was \$15 million, funded from cash on-hand.

68 70

EPSILON ENERGY LTD.
Supplemental Information to Consolidated Financial Statements
(Unaudited)

SUPPLEMENTAL NATURAL GAS AND OIL PRODUCING ACTIVITIES (UNAUDITED)

Natural gas and oil Reserves

Users of this information should be aware that the process of estimating quantities of “proved,” “proved developed” and “proved undeveloped” crude oil, natural gas liquids (NGLs) and natural gas reserves is complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity; evolving production history; crude oil and condensate, NGL and natural gas prices; and continual reassessment of the viability of production under varying economic conditions.

Consequently, material revisions (upward or downward) to existing reserve estimates may occur from time to time. Although reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the significance of the subjective decisions required and variances in available data for various reservoirs make these estimates generally less precise than other estimates presented in connection with financial statement disclosures.

Proved reserves represent estimated quantities of crude oil, NGLs and natural gas, which, by analysis of geoscience and engineering data, can be estimated, with reasonable certainty, to be economically producible from a given date forward from known reservoirs under then-existing economic conditions, operating methods and government regulations before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation.

Proved developed reserves are proved reserves expected to be recovered under operating methods being utilized at the time the estimates were made, through wells and equipment in place or if the cost of any required equipment is relatively minor compared to the cost of a new well.

Proved undeveloped reserves (PUDs) are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. PUDs can be recorded in respect of a particular undrilled location only if the location is scheduled, under the then-current drilling and development plan, to be drilled within five years from the date that the PUDs are to be recorded, unless specific factors (such as those described in interpretative guidance issued by the Staff of the SEC) justify a longer timeframe. Likewise, absent any such specific factors, PUDs associated with a particular undeveloped drilling location shall be removed from the estimates of proved reserves if the location is scheduled, under the then-current drilling and development plan, to be drilled on a date that is beyond five years from the date that the PUDs were recorded. Epsilon has formulated development plans for all drilling locations associated with its PUDs at **December 31, 2022** **December 31, 2023**. Under these plans, each PUD location will be drilled within five years from the date it was recorded.

Estimates for PUDs are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

The following tables set forth Epsilon's net proved reserves at **December 31, 2022** **December 31, 2023** and **2021** **2022** and changes for each of the two years in the year ended **December 31, 2022** **December 31, 2023**. Net proved reserves at December 31 are estimated by the Company's independent petroleum engineers, DeGolyer and MacNaughton.

69 **71**

(Unaudited)

NET PROVED RESERVE SUMMARY

All reserves located in United States	Pennsylvania	Oklahoma			Total
	Natural	Natural			
	Gas	Gas	NGL	Oil	
	(MMcf)	(MMcf)	(MBbl)	(MBbl)	(MMcfe)
Net proved developed reserves at December 31, 2020	63,469	320	-	19	63,903
Revisions of previous estimates (1)(2)	15,950	903	186	(10)	17,909
Divestitures	-	(60)	-	(1)	(66)
Transfers from proved undeveloped	513	1,364	-	83	2,375
Production	(9,830)	(403)	(29)	(25)	(10,557)
Net proved developed reserves at December 31, 2021	70,102	2,124	157	66	73,564
Revisions of previous estimates (3)(4)	10,837	(665)	(65)	12	9,856
Divestitures	-	-	-	-	-
Transfers from proved undeveloped	4,389	1,682	150	61	7,334
Production	(9,026)	(477)	(44)	(32)	(9,959)
Net proved developed reserves at December 31, 2022	76,302	2,664	198	107	80,795
Net proved undeveloped reserves at December 31, 2020	15,915	8,954	299	353	28,781
Revisions of previous estimates (5)(6)	11,532	(1,099)	281	(67)	11,717
Extensions and discoveries (7)(8)	4,388	930	83	36	6,032
Transfers from proved undeveloped	(513)	(1,364)	-	(83)	(2,375)
Net proved undeveloped reserves at December 31, 2021	31,322	7,421	663	239	44,155
Revisions of previous estimates (9)(10)	(18,738)	(2,860)	(220)	(74)	(23,362)
Extensions and discoveries	-	-	-	-	-
Transfers from proved undeveloped	(4,389)	(1,682)	(150)	(61)	(7,334)
Net proved undeveloped reserves at December 31, 2022	8,195	2,879	293	104	13,459
Net proved reserves at December 31, 2020	79,384	9,274	299	372	92,684
Revisions of previous estimates	27,482	(196)	467	(77)	29,626
Extensions and discoveries	4,388	930	83	36	6,032
Divestitures	-	(60)	-	(1)	(66)
Production	(9,830)	(403)	(29)	(25)	(10,557)
Net proved reserves at December 31, 2021	101,424	9,545	820	305	117,719
Revisions of previous estimates	(7,901)	(3,525)	(285)	(62)	(13,506)
Extensions and discoveries	-	-	-	-	-
Divestitures	-	-	-	-	-
Production	(9,026)	(477)	(44)	(32)	(9,959)
Net proved reserves at December 31, 2022	84,497	5,543	491	211	94,254
Proved developed reserves:					
At December 31, 2020	63,469	320	-	19	63,903
At December 31, 2021	70,102	2,124	157	66	73,564
At December 31, 2022	76,302	2,664	198	107	80,795
Proved undeveloped reserves:					
At December 31, 2020	15,915	8,954	299	353	28,781
At December 31, 2021	31,322	7,421	663	239	44,155
At December 31, 2022	8,195	2,879	293	104	13,459

(1) Revisions of previous estimates for Pennsylvania for 2021 include additions of 11,202 Mmcfe related to well performance and 4,748 Mmcfe related to commodity pricing.

All reserves located in United States				
	Pennsylvania	Permian Basin	Oklahoma	Total
Natural Gas (MMcf)				
Net proved reserves at December 31, 2021	101,424	-	9,545	110,969
Revisions of previous estimates	(7,901)	-	(3,525)	(11,426)
Production	(9,026)	-	(477)	(9,503)
Net proved reserves at December 31, 2022	84,497	-	5,543	90,040
Revisions of previous estimates	(14,831)	-	(1,515)	(16,346)
Acquisitions	-	481	-	481
Production	(7,906)	-	(354)	(8,260)
Net proved reserves at December 31, 2023	61,760	481	3,674	65,915
Natural Gas Liquids (MBbl)				
Net proved reserves at December 31, 2021	-	-	820	820
Revisions of previous estimates	-	-	(285)	(285)
Production	-	-	(44)	(44)
Net proved reserves at December 31, 2022	-	-	491	491
Revisions of previous estimates	-	-	(203)	(203)
Acquisitions	-	116	-	116
Production	-	-	(21)	(21)
Net proved reserves at December 31, 2023	-	116	267	383
Oil and Condensate (MBbl)				
Net proved reserves at December 31, 2021	-	-	305	305
Revisions of previous estimates	-	-	(62)	(62)
Production	-	-	(32)	(32)
Net proved reserves at December 31, 2022	-	-	211	211
Revisions of previous estimates	-	-	(43)	(43)
Acquisitions	-	194	-	194
Production	-	-	(21)	(21)
Net proved reserves at December 31, 2023	-	194	147	341
Total Company (MMcfe)				
Net proved reserves at December 31, 2021	101,424	-	16,295	117,719
Revisions of previous estimates (1)(2)	(7,901)	-	(5,604)	(13,505)
Production	(9,026)	-	(933)	(9,959)
Net proved reserves at December 31, 2022	84,497	-	9,758	94,255
Revisions of previous estimates (3)(4)	(14,831)	-	(2,991)	(17,822)
Acquisitions	-	2,341	-	2,341
Production	(7,906)	-	(606)	(8,512)
Net proved reserves at December 31, 2023	61,760	2,341	6,161	70,262

70 72

EPSILON ENERGY LTD.
Supplemental Information to Consolidated Financial Statements
(Unaudited)

All reserves located in United States				
	Pennsylvania	Permian Basin	Oklahoma	Total

Proved developed reserves:				
Natural Gas (MMcf)				
At December 31, 2021	70,102	-	2,124	72,226
At December 31, 2022	76,302	-	2,664	78,966
At December 31, 2023	45,135	481	1,939	47,555
Natural Gas Liquids (MBbl)				
At December 31, 2021	-	-	157	157
At December 31, 2022	-	-	198	198
At December 31, 2023	-	116	133	249
Oil and condensate (MBbl)				
At December 31, 2021	-	-	66	66
At December 31, 2022	-	-	107	107
At December 31, 2023	-	194	78	272
Total proved developed reserves (MMcfe)				
At December 31, 2021	70,102	-	3,462	73,564
At December 31, 2022	76,302	-	4,494	80,796
At December 31, 2023	45,135	2,341	3,205	50,681
Proved undeveloped reserves:				
Natural Gas (MMcf)				
At December 31, 2021	31,322	-	7,421	38,743
At December 31, 2022	8,195	-	2,879	11,074
At December 31, 2023	16,625	-	1,736	18,361
Natural Gas Liquids (MBbl)				
At December 31, 2021	-	-	663	663
At December 31, 2022	-	-	293	293
At December 31, 2023	-	-	134	134
Oil and condensate (MBbl)				
At December 31, 2021	-	-	239	239
At December 31, 2022	-	-	104	104
At December 31, 2023	-	-	69	69
Total proved undeveloped reserves (MMcfe)				
At December 31, 2021	31,322	-	12,833	44,155
At December 31, 2022	8,195	-	5,264	13,459
At December 31, 2023	16,625	-	2,956	19,581
Total proved reserves:				
Natural Gas (MMcf)				
At December 31, 2021	101,424	-	9,545	110,969
At December 31, 2022	84,497	-	5,543	90,040
At December 31, 2023	61,760	481	3,675	65,916
Natural Gas Liquids (MBbl)				
At December 31, 2021	-	-	820	820
At December 31, 2022	-	-	491	491
At December 31, 2023	-	116	267	383
Oil and condensate (MBbl)				
At December 31, 2021	-	-	305	305
At December 31, 2022	-	-	211	211
At December 31, 2023	-	194	147	341
Total proved reserves (MMcfe)				
At December 31, 2021	101,424	-	16,295	117,719
At December 31, 2022	84,497	-	9,758	94,255
At December 31, 2023	61,760	2,341	6,161	70,262

EPSILON ENERGY LTD.
Supplemental Information to Consolidated Financial Statements
(Unaudited)

- (2) Revisions of previous estimates for Oklahoma for 2021 include additions of 2,160 Mmcfe related to well performance, 423 Mmcfe related to commodity pricing, and reduction of 624 Mmcfe related to property interest adjustments.
- (3) (1) Revisions of previous estimates for Pennsylvania for 2022 include additions of 6,261 Mmcfe 6,238 MMcf related to well performance and 4,576 Mmcfe 4,759 MMcf related to commodity pricing, and reductions of 18,898 MMcf related to changes to previously adopted development plans.
- (4) (2) Revisions of previous estimates for Oklahoma for 2022 include additions of 267 Mmcfe 310 MMcf related to commodity pricing, 253 Mmcfe reductions of 4,353 MMcf related to changes to previously adopted development plans and reductions of 1,561 MMcf related to well performance.
- (3) Revisions of previous estimates for Pennsylvania for 2023 include reductions of 9,626 MMcf related to well performance, reductions of 21,830 MMcf related to commodity pricing, and additions of 16,625 MMcf related to changes in previously adopted development plans.
- (4) Revisions of previous estimates for Oklahoma for 2023 include reductions of 454 MMcf related to commodity pricing, 1,760 MMcf related to changes in previously adopted development plans, and reduction of 1,505 Mmcfe 777 MMcf related to well performance.
- (5) Revisions of previous estimates for Pennsylvania for 2021 include additions of 11,572 Mmcfe related to changes to the previously adopted development plan, 566 Mmcfe related to commodity pricing, and reductions of 606 Mmcfe related to well performance.
- (6) Revisions of previous estimates for Oklahoma for 2021 include additions of 246 Mmcfe related to commodity pricing, 205 Mmcfe related to well performance, 107 Mmcfe related to property interest adjustments, and reduction of 373 Mmcfe from changes to the previously adopted development plan.
- (7) Extensions and discoveries for Pennsylvania for 2021 include additions of 4,388 Mmcfe related to the proposal and development by the operator of a well that was not previously included in the development schedule.
- (8) Extension and discoveries for Oklahoma for 2021 include additions of 865 Mmcfe related to recent offset development, and 779 Mmcfe related to exercising the Company's option to participate in two new wells that were not previously included in the development schedule.
- (9) Revisions of previous estimates for Pennsylvania for 2022 include reductions of 18,898 Mmcfe related to changes to the previously adopted development plan, reductions of 25 Mmcfe related to well performance, and additions of 185 Mmcfe related to commodity pricing.
- (10) Revisions of previous estimates for Oklahoma for 2022 include additions of 41 Mmcfe related to commodity pricing, reductions of 58 Mmcfe related to well performance, and reduction of 4,607 Mmcfe from changes to the previously adopted development plan.

Capitalized Costs Relating to Natural gas and oil Producing Activities

The following table sets forth the capitalized costs relating to Epsilon's crude oil and natural gas production and gathering activities at December 31, 2022 December 31, 2023 and 2021: 2022:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Proved properties	\$ 148,326,265	\$ 138,032,413	\$ 160,263,511	\$ 148,326,265
Unproved properties	18,169,157	21,700,926	25,504,873	18,169,157
Gathering system properties	42,639,001	42,475,086	42,738,273	42,639,001
Total Oil & Gas Properties	209,134,423	202,208,425	228,506,657	209,134,423
Accumulated depreciation, depletion, amortization and impairment	(142,230,033)	(135,924,921)	(149,248,206)	(142,230,033)
Net capitalized costs	\$ 66,904,390	\$ 66,283,504	\$ 79,258,451	\$ 66,904,390

Costs incurred for oil and natural gas property acquisition, exploration and development activities

The following table summarizes costs incurred and capitalized in oil and natural gas properties related to acquisition, exploration and development activities. Property acquisition costs are those costs incurred to lease property, including both undeveloped leasehold and the purchase of reserves in place. Exploration costs include costs of identifying areas that may warrant examination and examining specific areas

that are considered to have prospects containing oil and natural gas reserves, including costs of drilling exploratory wells, geological and geophysical costs and carrying costs on

71

EPSILON ENERGY LTD.
Supplemental Information to Consolidated Financial Statements
(Unaudited)

undeveloped properties. Development costs are incurred to obtain access to proved reserves, including the cost of drilling, as well as the costs to develop the gathering system.

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Oil and Natural Gas Activities:				
Unproved acquisition costs	\$ 310,211	\$ 148,863	\$ 7,335,716	\$ 310,211
Development costs	6,426,037	3,751,827	11,994,374	6,426,037
Total costs incurred for oil and natural gas activities	6,736,248	3,900,690	19,330,090	6,736,248
Gathering System development costs	163,915	272,442	99,272	163,915
Total costs incurred	\$ 6,900,163	\$ 4,173,132	\$19,429,362	\$6,900,163

Results of Operations for Natural Gas and Oil Producing Activities

The following table sets forth results of operations for natural gas and oil producing activities for the years ended **December 31, 2022**, **December 31, 2023** and **2021**, **2022**:

	Year ended December 31,	
	2022	2021
Oil and gas producing activities:		
Gas sales	\$ 56,948,734	\$ 31,708,185
Oil and other liquid sales	4,928,463	2,829,982
Total revenues	61,877,197	34,538,167
Lease operating costs	(7,128,631)	(7,897,738)
Depreciation, depletion, amortization, accretion and impairment	(5,375,225)	(5,431,675)
Total costs	(12,503,856)	(13,329,413)
Results of operations from oil and gas producing activities	\$ 49,373,341	\$ 21,208,754

74

EPSILON ENERGY LTD.
Supplemental Information to Consolidated Financial Statements
(Unaudited)

	Year ended December 31,	
	2023	2022
Oil and gas producing activities:		
Gas sales	\$ 14,864,214	\$ 56,948,734
Oil and other liquid sales	6,075,007	4,928,463
Total revenues	20,939,221	61,877,197
Lease operating costs	(6,405,281)	(7,128,631)

Depreciation, depletion, amortization, accretion and impairment	(6,638,882)	(5,375,225)
Income tax expense	(2,569,725)	(12,157,487)
Results of operations from oil and gas producing activities	\$ 5,325,333	\$ 37,215,854

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Natural gas and oil Reserves

The following information has been developed utilizing procedures prescribed by the Extractive Industries—Activities—Natural Oil and Gas Topic 932 (Topic 932) of the ASC and based on natural gas reserves and production volumes estimated by our independent petroleum consultants, DeGolyer and MacNaughton. The commodity prices estimated below were based on a 12-month average of first-day-of-the-month commodity prices for the years 2022 2023 and 2021, 2022. The following information may be useful for certain comparative purposes, but should not be solely relied upon in evaluating Epsilon or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flows be viewed as representative of the current value of Epsilon.

The future cash flows presented below are based on expense and cost rates in existence as of the date of the projections. It is expected that material revisions to some estimates of natural gas reserves may occur in the future, development and production of the reserves may occur in periods other than those assumed, and actual prices realized and costs incurred may vary significantly from those used.

Estimated future income taxes are computed using current statutory income tax rates including consideration of the current tax basis of the properties and related carryforwards. The resulting tax-effected future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

Management does not rely upon the following information in making investment and operating decisions. Such decisions are based upon a wide range of factors, including estimates of probable and possible reserves as well as proved reserves, and varying price and cost assumptions considered more representative of a range of possible economic conditions that may be anticipated.

72

EPSILON ENERGY LTD.

Supplemental Information to Consolidated Financial Statements

(Unaudited)

The following table sets forth the standardized measure of discounted future net cash flows from projected production of Epsilon's gas reserves as of December 31, 2022 December 31, 2023 and 2021, 2022.

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Future cash inflows	\$ 529,886,325	\$ 353,162,054	\$ 152,124,830	\$ 529,886,325
Future production costs	(119,404,233)	(104,161,488)	(73,813,321)	(119,404,233)
Future development costs ⁽¹⁾	(21,171,395)	(36,751,965)	(15,815,930)	(21,171,395)
Future income taxes ⁽²⁾	(97,165,344)	(60,131,474)	(11,581,004)	(97,165,344)
Future net cash flows (undiscounted)			50,914,575	292,145,353
10% annual discount for estimated timing of cash flows	(146,368,246)	(74,408,997)	(17,941,667)	(146,368,246)
Standardized measure of discounted future net cash flows	\$ 145,777,107	\$ 77,708,130	\$ 32,972,908	\$ 145,777,107

⁽¹⁾ Costs associated with the abandonment of proved properties are included in future development costs.

⁽²⁾ Future income taxes for 2022 2023 and 2021 2022 were estimated using a combined federal and state statutory tax rate of approximately 26%.

75

EPSILON ENERGY LTD.
Supplemental Information to Consolidated Financial Statements
(Unaudited)

Changes in Standardized Measure of Discounted Future Net Cash Flows

The following table sets forth the changes in the standardized measure of discounted future net cash flows for the years ended **December 31, 2022**, **December 31, 2023** and **2021**; **2022**:

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Beginning balance	\$ 77,708,130	\$ 16,015,868	\$ 145,777,107	\$ 77,708,130
Revenue less production and other costs	(53,224,969)	(26,680,071)	(13,158,195)	(53,224,969)
Changes in price, net of production costs	147,777,736	70,063,892	(156,373,808)	147,777,736
Development costs incurred	10,396,380	4,581,988	10,011,508	10,396,380
Net changes in future development costs	5,054,884	(8,732,332)	(5,088,346)	5,054,884
Extensions and discoveries, less related costs	—	3,705,395		
Revisions of previous quantity estimates	(31,515,746)	40,997,786	(531,514)	(31,515,746)
Accretion of discount	9,790,852	2,218,430	14,271,185	9,790,852
Net change in income taxes	(17,827,596)	(25,325,983)	39,799,369	(17,827,596)
Purchases of reserves in place	—	446,240		
Timing differences and other technical revisions	(2,382,564)	416,917	(1,734,398)	(2,382,564)
Ending balance	\$ 145,777,107	\$ 77,708,130	\$ 32,972,908	\$145,777,107

73 76

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of **December 31, 2022**, **December 31, 2023**, our disclosure controls and procedures were effective at the reasonable assurance level. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Epsilon as such term is defined in the Exchange Act. Our internal control structure is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly executed and recorded. The internal control structure includes, among other things, established policies and procedures, the selection and training of qualified personnel as well as management oversight.

With the participation of our management, we performed an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the

Treadway Commission (the "2013 Framework"). Based upon our evaluation under the 2013 Framework, we have concluded that as of **December 31, 2022** **December 31, 2023** our internal control over financial reporting was effective.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by Epsilon's independent registered public accounting firm pursuant to rules of the SEC that permit Epsilon to provide only management's report in this Annual Report. We were not required to have, nor have we, engaged our independent registered public accounting firm to perform an audit of internal control over financial reporting pursuant to the rules of the Commission that permit us to provide only management's report in this Annual Report.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended **December 31, 2022** **December 31, 2023** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None. During the quarter ended December 31, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

None.

74 77

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The names, ages, business experience (for at least the past five years) and positions of our directors and executive officers as of **December 31, 2022** **December 31, 2023**, are set out below. Our Board of Directors consisted of **seven** **six** members at such date. All directors serve until the next annual meeting of shareholders or until their successors are elected or appointed and qualified. The Board of Directors appoints the executive officers annually.

Directors and Executive Officers	Age	Position with us
Jason Stabell	48 49	Chief Executive Officer and Director
Henry N. Clanton	61	Chief Operating Officer
Andrew Williamson	34 35	Chief Financial Officer
Henry N. Clanton	60	Chief Operating Officer
John Lovoi	62 63	Chairman of the Board and Director
Jacob Roorda	65	Director
Tracy Stephens	62	Director
Stephen Finlayson	68 63	Director
Jason Stankowski	52 53	Director
David Winn	60 61	Director
Nicola Maddox	68	Director

Biographies of Corporate Directors and Executive Officers.

Jason Stabell. Mr. Stabell has served as chief executive officer and a director for Epsilon Energy Ltd. since July 2022. He has worked in the energy industry since 1998 with a focus on upstream E&P. Most recently he served as President and CEO of Merlon International, LLC, a privately held company with assets in the Western Desert of Egypt and US Gulf Coast which was sold in 2019 to a publicly listed UK company where he served as an advisor until 2021. Previously, he served as CFO and ultimately President of privately held Merlon Petroleum Company, which had assets in the US Gulf Coast and Egypt and was sold in 2006. He has a BA in Economics from Williams College. We believe that Mr. Stabell is qualified to serve as a member of our board of directors as a result of his experience in the natural gas and oil industry.

Henry N. Clanton. Mr. Clanton has served as our chief operating officer since January 2017. He has over 30 years of experience in the upstream E&P sector. His experience includes financial and technical management over all phases of drilling, completions, production, and field operations. Before joining us, he spent 14 years with a private E&P start-up, ARES Energy, Ltd, which he co-founded and served as a Managing Partner. Previous to that time Mr. Clanton worked with Schlumberger, ARCO Permian, and Coastal Management Company. He holds a MBA and a BS in Petroleum Engineering from Texas A&M University.

Andrew Williamson. Mr. Williamson has served as our chief financial officer since July 2022. He has spent his entire career in the energy business. From 2012 to early 2019, he served as Corporate Development Manager then Vice President Finance (CFO) of Merlon International, LLC. More recently, he served as the Corporate Strategy Manager for Petrosantander Inc. Mr. Williamson started his career in management consulting advising energy clients on transaction due diligence, growth strategy, and cost reduction. He has a BBA in Finance and a BA in Political Science from Southern Methodist University.

Henry N. Clanton. Mr. Clanton has served as our chief operating officer since January 2018. He has over 30 years of experience in the upstream E&P sector. His experience includes financial and technical management over all phases of drilling, completions, production, and field operations. Before joining us, he spent 14 years with a private E&P start-up, ARES Energy, Ltd, which he co-founded and served as a Managing Partner. Previous to that time Mr. Clanton worked with Schlumberger, ARCO Permian, and Coastal Management Company. He holds a MBA and a BS in Petroleum Engineering from Texas A&M University.

John Lovoi. Mr. Lovoi has been chairman of our board of directors since July 2013. Mr. Lovoi has been the managing partner of JVL Advisors, LLC, a private natural gas and oil investment advisor, since November 2002. He is a Director of Helix Energy Solutions Group, an operator of offshore natural gas and oil properties and production facilities, the Chairman of Dril-Quip, Inc., a provider of subsea, surface and offshore rig equipment. We believe that Mr. Lovoi is qualified to serve as a member of our board of directors as a result of his background in investment banking, equity research, and asset management, with an emphasis on the global natural gas and oil practice.

Jacob Roorda. Mr. Roorda has been a director of the Company since March 2016. He has also been a member of our Audit Committee since March 2016, and the chair of our Conflicts Committee since February 2018. Mr. Roorda has been a director of Lucero Energy Corp., a Bakken focused oil and natural gas producer, since 2012 and currently serves on the Reserves Committee of Lucero Energy Corp. Mr. Roorda was the President and CEO of Lucero Energy Corp. until February 2022. He was the Chief Executive Officer of Todd Energy Canada Ltd. from January 2015 to November 2016.

None of these positions are, or have ever been, with companies affiliated with the Company. He has been certified as a Professional Engineer by the Association of Professional Engineers and Geoscientists of Alberta since 1981. We believe that Mr. Roorda is qualified to serve as a member of our board of directors as a result of his experience in the natural gas and oil industry, including his natural gas and oil business development and engineering experience, and his financial industry experience.

Tracy Stephens. Mr. Stephens has been a director since May 2018. He has also been a member of our Compensation, Nominating and Corporate Governance Committee, and Conflicts Committee since February 2019. He is the founder of Westminster Advisors, a CEO advisory services company, and served as its Chief Executive Officer from January 2018. He was previously employed by Resources Global Professionals, a large business consulting company, from July 2001 to December 2016, and was the Chief Operating Officer the last three years. We believe that Mr. Stephens is qualified to serve as a member of our board of directors as a result of his extensive experience with public companies.

Stephen Finlayson⁷⁸. Mr. Finlayson has been a director since May 2019. He resigned from the audit committee and became a member of the Compensation, Nominating and Corporate Governance Committee in January 2021. In 2002, Mr. Finlayson founded and is currently Chairman of Applied Manufacturing Technologies (AMT), an independent international consulting and project services company. Prior to founding AMT, Mr. Finlayson headed Aspen Tech's professional services organization serving global customers in the hydrocarbon industries. Aspen Tech, a public company, trades under the symbol AZPN on the NASDAQ. Under Mr. Finlayson, Aspen's professional services organization delivered over 50% of company revenues. With his extensive experience in the hydrocarbon industries both in public and private companies we believe that Mr. Finlayson is qualified to serve as a member of our board of directors.

Jason Stankowski. Mr. Stankowski has been a director and member of the Audit Committee since January 2021. Mr. Stankowski is the founder and a partner and portfolio manager for Clayton Partners, LLC. He began his career at Prudential Securities in San Francisco and spent eight years in structured finance at CMA Capital Management, where he acted in a number of roles, including specializing in corporate retirement planning, structuring complex investment and financing structures for Fortune 1000 companies. He became designated as a Chartered Financial Analyst in 2003. We believe that Mr. Stankowski is qualified to serve as a member of our board of directors based on his corporate finance and experience in public equity markets.

David Winn. Mr. Winn has been a director and member of the Audit Committee since January 2021. Mr. Winn recently retired from a 36 year career in public accounting that involved extensive board interaction. From 2003 until July 2020, Mr. Winn was an Audit Partner for Grant Thornton LLP, which is an independent audit, tax, and advisory firm and the U.S. member firm of Grant Thornton International Ltd. During his tenure, Mr. Winn served as audit department head, industry program leader, an engagement partner, quality control reviewer, and was a relationship partner to large clients. Mr. Winn has extensive Securities and Exchange Commission reporting experience with registration statements and annual and quarterly filings. Previously Mr. Winn served as a Director for PricewaterhouseCoopers LLP and previously as a Partner with Arthur Andersen LLP. We believe that Mr. Winn is qualified to serve as a member of our board of directors because of his experience in public accounting and public company reporting.

Nicola Maddox. Ms. Maddox has over forty years' experience in the oil and gas industry. After receiving her BA in Communications, she was employed by Exxon Minerals starting as an Associate Landman eventually ending in Executive Management positions starting in 1993. She was a co-founder of Centurion Exploration Company in 2004, initially serving as an EVP and then becoming its President, CEO and Chairman of the Board from 2007 to 2009. At Merlon International, LLC, Ms. Maddox was SVP in charge of its Texas subsidiary. She advanced to EVP and ultimately President after Merlon sold its Egyptian subsidiary in 2019. Since 2022, she has been a self-employed energy advisor specializing in contract analysis, strategic planning, and negotiation strategies. We believe that Ms. Maddox is qualified to serve as a member of our board of directors because of his significant industry experience in upstream oil and gas.

Corporate Governance Practices and Policies

Our corporate governance practices and policies are administered by the board of directors and by committees of the board appointed to oversee specific aspects of our management and operations, pursuant to written charters and policies adopted by the board and such committees.

The Board of Directors

The Board is committed to a high standard of corporate governance practices. The Board believes that this commitment is not only in the best interests of the shareholders but that it also promotes effective decision-making at the Board level. The Board is of the view that its approach to corporate governance is appropriate and complies with the objectives and guidelines relating to corporate governance set out in National Instrument 58-201 adopted by the Canadian securities administrators, or NI 58-201, as well as the governance requirements of the NASDAQ Global Market. In addition, the Board monitors and considers for implementation the corporate governance standards that are proposed by various Canadian regulatory authorities or that are published by various non-regulatory organizations in Canada. The Board has also established a Compensation, Committee and Nominating and Corporate Governance Committee and has adopted a Compensation, Committee Charter, and Nominating and Corporate Governance Charter to ensure the objectives of NI 58-201 and the NASDAQ Global Market are met.

Mr. Lovoi is the Managing Partner of JVL Advisors, LLC, beneficial owner of 7.79% 3.46% of our common shares and Chairman of the Board.

The Board held nineteen eleven meetings during 2022 2023 and seven thirteen meetings during 2021 2022. All Board meetings were conducted with open and candid discussions. As such, the independent directors did not hold any separate meetings, other than Audit and Compensation, Nominating and Corporate Governance Committee meetings that excluded directors who were not independent. meetings. The chairman of the Board is not an independent director. The independent members of the Board have the ability to meet on their own and are authorized to retain independent financial, legal and other experts as required whenever, in their opinion, matters come before the Board that require an independent analysis by the independent members of the Board. The Board intends to hold at least four regular meetings each year, as well as additional meetings as required. The Board has not established any required attendance levels for the Board and committee meetings. In setting the regular meeting schedule, care is taken to ensure that meeting dates are set to accommodate directors' schedules so as to encourage full attendance.

79

The Board has stewardship responsibilities, including responsibilities with respect to oversight of our investments, management of the Board, monitoring of our financial performance, financial reporting, financial risk management and oversight of policies and procedures, communications and reporting and compliance. In carrying out its mandate, the Board meets regularly and a broad range of matters are discussed and reviewed for approval. These matters include overall plans and strategies, budgets, internal controls and management information systems, risk management as well as interim and annual financial and operating results. The Board is also responsible for the approval of all major transactions, including property acquisitions, property divestitures, equity issuances and debt transactions, if any. The Board strives to ensure that our corporate actions correspond closely with the objectives of its shareholders. The Board will meet at least once annually to review in depth our strategic plan and review our available resources required to carry out our growth strategy and to achieve its objectives. The mandate of the Board is to be reviewed by the Board annually.

Position Descriptions. The Board has outlined the responsibilities in respect to our Chief Executive Officer, or CEO. The Board and CEO do not have a written position description for the CEO; however, the CEO's principal duties and responsibilities are planning our strategic direction, providing leadership, acting as our spokesperson, reporting to shareholders, and overseeing our executive management in particular with respect to operations and finance.

The charter for each of the Board committees outlines the duties and responsibilities of the members of each of the committees, including the chair of such committees. See "Board Committees" below.

Orientation and Continuing Education. We have not adopted a formalized process of orientation for new Board members. However, all directors have been provided with a base line of knowledge about us that serves as a basis for informed decision making. This includes a combination of written material, in person meetings with our senior management, site visits and other briefings and training, as appropriate.

Directors are kept informed as to matters affecting, or that may affect, our operations through reports and presentations at the quarterly Board meetings. Special presentations on specific business operations are also provided to the Board.

Ethical Business Conduct and Whistleblower Policy. Our Code of Ethics and Whistleblower Policy are available on our website at <http://www.epsilonenergy ltd.com/>. Each director is expected to disclose all actual or potential conflicts of interest and refrain from voting on matters in which such director has a conflict of interest. In addition, a director must recuse himself from any discussion or decision on any matter of which the director is precluded from voting as a result of a conflict of interest. The Board has reviewed and approved a disclosure and insider trading policy for us, in order to promote consistent disclosure practices aimed at informative, timely and broadly disseminated disclosure of material information to the market in accordance with applicable securities legislation. The disclosure policy promotes, among other things, the disclosure and reporting of any serious weaknesses which may affect the financial stability and assets of us and our operating entities.

National Instrument 52-110 adopted by the Canadian securities administrators, the listing standards of the Toronto Stock Exchange and the listing standards of the NASDAQ Global Market require the Audit Committee to establish formal procedures for (a) the receipt, retention, and treatment of complaints received by us and our subsidiaries regarding accounting, internal accounting controls, or auditing

matters and (b) the confidential, anonymous submission by our consultants or employees of concerns regarding questionable accounting or auditing matters. We are committed to

77

achieving compliance with all applicable securities laws and regulations, accounting standards, accounting controls and audit practices. In addition, we post on our website all disclosures that are required by law or the listing standards of the NASDAQ Global Market concerning any amendments to, or waivers from, any provision of the code.

Assessments. The Board does not conduct regular assessments of the Board, its committees or individual directors, however, the Board does periodically review and satisfy itself at meetings that the Board, its committees and its individual directors are performing effectively.

Board Diversity. Our Compensation, Nominating and Corporate Governance Committee is responsible for reviewing with the board of directors, on an annual basis, the appropriate characteristics, skills and experience required for the board of directors as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current members), the nominating and corporate governance committee, in recommending candidates for election, and the board of directors, in approving (and, in the case of vacancies, appointing) such candidates, will take into account many factors, including the following:

80

- personal and professional integrity, ethics and values;
- experience in corporate management, such as serving as an officer or former officer of a publicly held company;
- experience as a board member or executive officer of another publicly held company;
- strong finance experience;
- diversity of expertise and experience in substantive matters pertaining to our business relative to other board members;
- diversity of background and perspective, including, but not limited to, with respect to age, gender, race, place of residence and specialized experience;
- experience relevant to our business industry and with relevant social policy concerns; and
- relevant academic expertise or other proficiency in an area of our business operations.

Currently, our Board evaluates each individual in the context of the board of directors as a whole, with the objective of assembling a group that can best maximize the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas.

Board Committees

The Board has **three** committees. The committees are the Audit Committee **and** the Compensation, Nominating and Corporate Governance **Committee, and the Conflicts** Committee. Each committee has been constituted with independent directors.

Audit Committee. The Audit Committee currently consists of David Winn (Chairman), **Jacob Roorda**, **John Lovoi**, and Jason Stankowski. All members of the Audit Committee are independent and financially literate under the applicable rules and regulations of the SEC and the NASDAQ Global Market.

The Audit Committee meets at least on a quarterly basis to review and approve our consolidated financial statements before the financial statements are publicly filed.

The Audit Committee reviews our interim unaudited condensed consolidated financial statements and annual audited consolidated financial statements and certain corporate disclosure documents including the Annual Information Form, Management's Discussion and Analysis, and annual and interim earnings press releases before they are approved by the Board. The Audit Committee reviews and makes a

recommendation to the Board in respect of the appointment and compensation of the external auditors and it monitors accounting, financial reporting, control and audit functions. The Audit Committee meets to discuss and review the audit plans of external auditors and is directly responsible for overseeing the work of the external auditors with respect to preparing or issuing the auditors' report or the performance of other audit, review or attest services, including the resolution of disagreements between management and the external auditors regarding financial reporting. The Audit Committee questions the external auditors independently of management and reviews a written statement of its independence. The Audit Committee must be satisfied that adequate procedures are in place for the review of our public disclosure of financial information extracted or derived from **its** **our** consolidated financial

78

statements and it periodically assesses the adequacy of those procedures. The Audit Committee must approve or pre-approve, as applicable, any non-audit services to be provided to us by the external auditors. In addition, it reviews and reports to the Board on our risk management policies and procedures and reviews the internal control procedures to determine their effectiveness and to ensure compliance with our policies and avoidance of conflicts of interest. The Audit Committee has established procedures for dealing with complaints or confidential submissions which come to its attention with respect to accounting, internal accounting controls or auditing matters. To date, neither the Board nor the Audit Committee has formally assessed any individual director with respect to their effectiveness and contribution to us in their capacity as a director. Instead, members of the Board have relied on informal conversations among themselves to adequately cover such matters.

The Audit Committee operates under a written charter that satisfies the applicable standards of the SEC and The NASDAQ Global Market. A copy of the Audit Committee Charter can be found on our website at www.epsilonenergy.com.

81

Compensation, Nominating and Corporate Governance Committee. The Compensation, Nominating and Corporate Governance Committee is currently comprised of Tracy Stephens (Chairman), John Lovoi, and **Stephen Finlayson**. **Mr. Stephens and Mr. Finlayson** **Nicola Maddox**. **All members of this committee** are independent directors. **Mr. Lovoi is not an independent director.**

The Compensation, Nominating and Corporate Governance Committee's mandate is to:

1. Assist and advise the Board regarding its responsibility for oversight of our compensation policy; provided that all determinations on officer compensation will be subject to review and approval by the Board;
2. Study and evaluate appropriate compensation mechanisms and criteria;
3. Develop and establish appropriate compensation policies and practices for the Board and our senior management, including our security-based compensation arrangements;
4. Evaluate senior management;
5. Serve in an advisory capacity on organizational and personnel matters to the Board;
6. Assist the Board by identifying individuals qualified to serve on the Board and its committees;
7. Recommend to the Board the director nominees for the next annual meeting;
8. Recommend to the Board members and chairpersons for each committee;
9. Develop and recommend to the Board and review from time to time, a set of corporate governance principles and monitor compliance with such principles; and
10. Serve in an advisory capacity on matters of governance structure and the conduct of the Board.

These responsibilities include reporting and making recommendations to the Board for their consideration and approval. Corporate governance also relates to the activities of the Board, the members of which are elected by and are accountable to the shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day-to-day

management of us. The Board is committed to sound corporate governance practices, which are both in the interest of its shareholders and contribute to effective and efficient decision making.

The Compensation, Nominating and Corporate Governance Committee operates under a written charter that satisfies the applicable standards of the SEC and The NASDAQ Global Market. A copy of such charter can be found on our website at www.epsilonenergytld.com.

Conflicts Committee. The Conflicts Committee currently consists of Jacob Roorda (Chairman), Tracy Stephens and Stephen Finlayson. All members are independent directors.

The Conflicts Committee has the power to advise the Board with respect to any matters or issues of concern to the Conflicts Committee in connection with any corporate opportunity and the interests of a related or conflicted party that the Conflicts Committee considers necessary or advisable.

Communications to the Board

Shareholders may communicate directly with our Board of Directors or any director by writing to the board or a director in care of the corporate secretary at Epsilon Energy Ltd., 500 Dallas Street, Suite 1250, Houston, Texas 77002, or by faxing their written communication to AeRayna Flores at (281) 668-0985. Shareholders may also communicate to with the Board of Directors or any director by calling Ms. Flores at (281) 670-0002. Ms. Flores will review any communication before forwarding it to the board Board or director, as the case may be.

Employment Agreements

All named executive officers have executed employment contracts with us.

The Board appointed Mr. Jason Stabell to serve as CEO of Stabell's employment agreement is effective from July 1, 2022 and filed in Form 8-K with the Company and as a member of the Board beginning SEC on July 1, 2022 (the "Stabell Effective Date") June 24, 2022. In connection with Mr. Stabell's appointment, the Company entered into an Executive Employment Agreement with Mr. Stabell (the "Stabell Employment Agreement"), effective July 1, 2022. Pursuant to the Stabell Employment Agreement, the Company and Mr. Stabell have agreed that Mr. Stabell will serve as CEO on an "at-will" basis for an annual base salary of \$300,000. In addition to his base salary, Mr. Stabell will be eligible to receive an annual incentive bonus targeted at \$200,000 for achieving performance goals established by the Compensation Committee of the Board in its sole discretion for the then current calendar year. Additionally, Mr. Stabell will be eligible for equity awards in the form of Restricted Stock Units ("RSUs") with a grant date value of \$600,000. The RSUs shall vest over a four-year period beginning on the Stabell Effective Date as follows: twenty-five percent (25%) of the RSUs on the first anniversary of the Stabell Effective Date, and an additional 6.25% of the RSUs vesting on the first day of each subsequent quarter, with full vesting on July 1, 2026, provided that Mr. Stabell is employed by the Company on each such vesting date. All outstanding RSUs shall vest at target upon a "Change in Control," as defined in the Equity Plan, provided Mr. Stabell then remains employed by the Company. Mr. Stabell will be entitled to participate in all applicable Company benefit plans, programs, or arrangements that the Company may offer to its executives generally, from time to time, and as may be amended from time to time. Participation will be subject to the terms of the applicable plan documents and generally applicable Company policies, as may be in effect from time to time, and any other restrictions or limitations imposed by law. If Mr. Stabell is terminated by the Company without cause or resigns for Good Reason (as defined in the Stabell Employment Agreement), he will be entitled to a severance payment equal to twenty-four (24) months' salary and the pro-rated target bonus for the year in which the termination takes place.

Mr. Henry Clanton's employment contract calls for a base pay of \$250,000 per year. agreement is effective from January 4, 2019 and filed in Form 10-12B with the SEC on December 21, 2018. Mr. Andrew Williamson's employment agreement is effective from July 1, 2022 and filed in Form 8-K with the SEC on June 24, 2022.

The Board appointed Andrew Williamson to serve as CFO of the Company beginning on July 1, 2022 (the "Williamson Effective Date"). In connection with Mr. Williamson's appointment, the Company entered into an Executive Employment Agreement with Mr. Williamson (the "Williamson Employment Agreement"), effective July 1, 2022. Pursuant to the Williamson Employment Agreement, the Company and Mr. Williamson have agreed that Mr. Williamson will serve as CFO on an "at-will" basis for an annual base salary of \$230,000. In addition to his base salary, Mr. Williamson will be eligible to receive an annual incentive bonus targeted at \$150,000 for achieving performance goals established by the Compensation Committee of the Board in its sole discretion for the then current calendar year. Additionally, Mr. Williamson

will be eligible for equity awards with a grant date value of \$250,000. The RSUs shall vest over a four-year period beginning on the Williamson Effective Date as follows: twenty-five percent (25%) of the RSUs on the first anniversary of the Williamson Effective Date, and an additional 6.25% of the RSUs vesting on the first day of each subsequent quarter, with full vesting on July 1, 2026, provided that Mr. Williamson is employed by the Company on each such vesting date. All outstanding RSUs shall vest at target upon a "Change in Control," as defined in the Equity Plan, provided Mr. Williamson then remains employed by the Company. Mr. Williamson will be entitled to participate in all applicable Company benefit plans, programs, or arrangements that the Company may offer to its executives generally, from time to time, and as may be amended from time to time. Participation will be subject to the terms of the applicable plan documents and generally applicable Company policies, as may be in effect from time to time, and any other restrictions or limitations imposed by law. If Mr. Williamson is terminated by the Company without cause or resigns for Good Reason (as defined in the Williamson Employment Agreement), he will be entitled to a severance payment equal to twenty-four (24) months' salary and the pro-rated target bonus for the year in which the termination takes place.

80 82

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

Epsilon's board of directors (the "Board") The Board adopted the 2020 Equity Incentive Plan (the "2020 Plan") on July 22, 2020 subject to approval by Epsilon's shareholders at Epsilon's 2020 Annual General and Special Meeting of shareholders, which occurred on September 1, 2020 (the "Meeting"). Shareholders approved the 2020 Plan at the Meeting. Following Epsilon's listing on the NASDAQ Global Market, the Board determined that it is in the best interest of the shareholders to approve a new incentive plan that is compliant with U.S. public company equity plan rules and practices that would replace Epsilon's Amended and Restated 2017 Stock Option Plan (including its predecessors) and the Share Compensation Plan (collectively referred to as the "Predecessor Plans"). No further awards will be granted under the Predecessor Plans.

The following table sets out information concerning the compensation paid to our principal executive officer and our two most highly compensated executive officers other than our principal executive officer, or our named executive officers, for the two years ended December 31, 2022 December 31, 2023 and 2021, 2022. Compensation amounts in the following table are in U.S. dollars.

Name and principal position	Non-equity incentive plan compensation									Non-equity incentive plan compensation					
	Annual Long-term									Annual Long-term					
	Year	Salary	Bonuses	Share-based Awards	Option-based Awards	Incentive Plans	Incentive Plans	Pension Value	Total Compensation	Year	Salary	Bonuses	Share-based Awards	Incentive Plans	Incentive Plans
Jason Stabell, CEO ⁽¹⁾	2022	\$150,000	\$100,000	\$ 600,000	\$ —	\$ —	\$ —	\$ —	\$ 850,000	2023	\$311,000	\$184,000	\$ 851,003	\$ —	\$ —
	2021	\$150,000	\$100,000	\$ 600,000	\$ —	\$ —	\$ —	\$ —	\$ 850,000	2022	\$150,000	\$100,000	\$ 600,000	\$ —	\$ —
Henry N. Clanton, COO ⁽²⁾	2022	\$262,500	\$117,000	\$ 173,187	\$ —	\$ —	\$ —	\$ —	\$ 552,687	2023	\$272,000	\$ 92,000	\$ 92,004	\$ —	\$ —
	2021	\$250,000	\$ 75,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 325,000	2022	\$262,500	\$117,000	\$ 173,187	\$ —	\$ —
	2021	\$250,000	\$ 75,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 325,000	2021	\$250,000	\$ 75,000	\$ —	\$ —	\$ —
Andrew Williamson, CFO ⁽³⁾	2022	\$115,000	\$ 75,000	\$ 250,000	\$ —	\$ —	\$ —	\$ —	\$ 440,000	2023	\$239,000	\$138,000	\$ 355,006	\$ —	\$ —
	2022	\$115,000	\$ 75,000	\$ 250,000	\$ —	\$ —	\$ —	\$ —	\$ 440,000	2022	\$115,000	\$ 75,000	\$ 250,000	\$ —	\$ —

- (1) Mr. Stabell was hired as our chief executive officer in July 2022 with an annual 2022. His current base salary of US\$300,000. is \$311,000.
- 2023—Share award of 108,465 common shares valued at \$5.08 per share, market price on the grant date of December 31, 2023, which vests evenly over a three year period.
- Share award of 56,180 common shares valued at \$5.34 per share, market price on the grant date of July 1, 2023. This stub grant, although awarded in 2023, was based on 2022 performance. The grant vests evenly over a three year period.
- 2022—Share award of 97,560 common shares under the 2020 Plan valued at \$6.15 per share, market price on the grant date, July 1, 2022. This grant was awarded up-front on the employment effective date as part of the employment agreement. The RSU's vest grant vests over a four-year period with 25% vesting on the first anniversary of Mr. Stabell's effective date and an additional 6.25% vesting on the first day of each subsequent quarter, with full vesting on July 1, 2026 so long as Mr. Stabell is still employed.
- (2) Mr. Henry Clanton was hired as our chief operating officer in January 2018, 2018. His current base salary of US\$262,500. \$272,000.
- 2023—Share award of 18,111 common shares valued at \$5.08 per share, market price on the grant date of December 31, 2023, which vest evenly over a three year period.
- 2022— Share award of 12,825 under the 2020 Plan common shares valued at \$6.33 per share, market price on the grant date, April 6, 2022, and a share award of 13,877 under the 2020 Plan common shares valued at \$6.63 per share, market price on the grant date, December 31, 2022, both of which vest evenly over a three year period, so long as Mr. Clanton is still employed.
- (3) Mr. Andrew Williamson was hired as our chief financial officer in July 2022 with a 2022. His current base salary of US\$230,000. is \$239,000.
- 2023—Share award of 45,276 valued at \$5.08 per share, market price on the grant date of December 31, 2023, which grants vest evenly over a three year period.

-
- Share award of 23,409 common shares valued at \$5.34 per share, market price on the grant date of July 1, 2023. This stub grant, although awarded in 2023, was based on 2022 performance. The grant vests evenly over a three year period.
- 2022— Share award of 40,650 common shares under the 2020 Plan valued at \$6.15 per share, market price on the grant date, July 1, 2022. This grant was awarded up-front on the employment effective date as part of the employment agreement. The RSU's vest grant vests over a four-year period with 25% vesting on the first anniversary of Mr. Williamson's effective date and an additional 6.25% vesting on the first day of each subsequent quarter, with full vesting on July 1, 2026 so long as Mr. Williamson is still employed.
- (4) As a Company policy, Epsilon matches on 401K contributions up to 5%.

Description of the 2020 Equity Incentive Plan (the "2020 Plan")

The 2020 Plan was approved by the Board on July 22, 2020 and shareholders on September 1, 2020 as a replacement of our Amended and Restated 2017 Stock Option Plan and the Share Compensation Plan.

The 2020 Plan is administered by the Board, a committee of the Board or one or more officers delegated authority by the Board to administer the 2020 Plan. The Board has the authority in its discretion to interpret the 2020 Plan. The Board determines to whom stock options, stock appreciation rights, restricted stock and stock units, performance shares and units, other stock-based awards and cash-based awards are granted, subject to options and all other terms and conditions of the awards.

The maximum number common shares that may be issued under the 2020 Plan is 2,000,000. As of **December 31, 2022** **December 31, 2023**, 234,834 performance stock units ("PSUs"), and **449,131** **807,677** time-based restricted shares were outstanding, leaving **1,316,035** **957,489** shares available to be granted under the 2020 Plan.

If the shares granted under the 2020 Plan expire or terminate for any reason without having been issued **or are forfeited**, they again become available for grant under the 2020 Plan. Shares granted under the 2020 Plan are not transferable or assignable other than by will or other testamentary instrument or the laws of succession.

In the event we undergo a change of control by a reorganization, acquisition, amalgamation or merger (or a plan or arrangement in connection with any of these) with respect to which all or substantially all of the persons who were the beneficial owners of the common shares immediately prior to such transaction do not, following such transaction, beneficially own, directly or indirectly more than 50% of the resulting voting power, a sale of all, or substantially all, of the Company's assets, or the liquidation, dissolution or winding-up of the Company, outstanding awards shall be subject to the definitive agreement entered into by the Company in connection with the change of control.

If an award holder resigns from the Company or is terminated by the Company (with or without cause), unvested shares will immediately be forfeited.

At **December 31, 2022** **December 31, 2023**, we were authorized to issue equity securities as follows:

Plan Category	Number of Shares to be Issued Upon Exercise or Vesting of Outstanding			Weighted Average Exercise or Vesting Price of Outstanding Options or Shares			Number of Shares Remaining Available for Future Issuance Under Equity Compensation		
	Options or Shares			or Shares			Options or Shares		
Equity share options under Amended and Restated 2017 Stock Option Plan	70,000	\$		5.03		—	57,500	\$	5.03
Common shares under 2020 Equity Incentive Plan	314,043	\$		5.89		1,316,035	491,536	\$	5.59
									957,489

Incentive Plan Awards for Named Executive Officers

Outstanding Share-Based Awards and Option-Based Awards as of **December 31, 2022** **December 31, 2023** are as follows:

Option-based Awards	Share-based Awards		Option-based Awards
	Market or	Market or	

Name	Number of Securities			Value of		Number of Shares or Units		Payout Value of Share-Based Awards that Have Not		Payout Value of Vested Share-Based awards not Paid Out or Distributed		Number of Securities			Value of		Number of Shares or Units	
	Underlying	Option	Option	Unexercised		of Shares that		Awards that		Based awards		Underlying	Option	Option	Unexercised		of Shares the	
	Unexercised	Exercise	Expiration	In-the-Money		Have Not		Have Not		not Paid Out or		Unexercised	Exercise	Expiration	In-the-Money		Have Not	
	Options	Price	Date	Options		Vested		Vested		Distributed		Options	Price	Date	Options		Vested	
Jason Stabell	—	\$		\$	—	97,560	\$	646,823	\$	—		—	\$		\$	—	123,25	
Henry N. Clanton	30,000	\$ 5.03	01/30/24	\$ 48,000		23,334	\$	154,704	\$	—		30,000	\$ 5.03	01/30/24	\$ 1,500		13,52	
Andrew Williamson	—	\$		\$	—	40,650	\$	269,510	\$	—		—	\$		\$	—	51,35	

Incentive Plan Awards—Value Vested or Earned for Named Executive Officers

The values of incentive plan awards that were vested or earned during the year ended **December 31, 2022** **December 31, 2023** are as follows:

Name	Non-Equity Incentive Plan			Non-Equity In		
	Option-Based Awards—Value	Share-based awards—Value	Compensation—Value Earned	Option-Based Awards—Value	Share-based awards—Value	Compensation-
	Vested During the Year	Vested During the Year	During the Year	Vested During the Year	Vested During the Year	During t
Jason Stabell				\$	— \$	162,806 \$
Henry N. Clanton	\$	— \$	105,695 \$	\$	— \$	80,985 \$
Andrew Williamson				\$	— \$	67,834 \$

We have adopted the 2020 Plan as an incentive-based share award plan applicable to all named executive officers and employees.

82

Change of control is defined as any event whereby any person acquires at least 50% of **The the** Company's stock or if a group of shareholders causes at least 50% of the board members to change.

DIRECTOR COMPENSATION

The following table contains compensation earned in the year ended **December 31, 2022** **December 31, 2023** by our independent directors who are not named executive officers:

Name	Non-Equity						
	Share-Based			Incentive Plan		Pension	
	Fees Earned	Awards	Option-Based	Compensation	Value	Compensation	Total
John Lovoi*	\$ —	\$ 152,478	\$ —	\$ —	\$ —	\$ —	\$ 152,478
Stephen Finlayson	\$ 30,768	\$ 41,778	\$ —	\$ —	\$ —	\$ —	\$ 72,546
Jacob Roorda	\$ 30,768	\$ 41,778	\$ —	\$ —	\$ —	\$ —	\$ 72,546
Tracy Stephens	\$ 30,753	\$ 41,778	\$ —	\$ —	\$ —	\$ —	\$ 72,531
David Winn	\$ 46,130	\$ 41,778	\$ —	\$ —	\$ —	\$ —	\$ 87,908
Jason Stankowski	\$ 30,753	\$ 41,778	\$ —	\$ —	\$ —	\$ —	\$ 72,531

Name	Non-Equity				
	Share-Based		Incentive Plan		All Other
	Fees Earned	Awards	Compensation	Compensation	Total

John Lovoi	\$ 95,000	\$ 65,000	\$ —	\$ —	\$ 160,000
Tracy Stephens	\$ 65,000	\$ 65,000	\$ —	\$ —	\$ 130,000
David Winn	\$ 70,000	\$ 65,000	\$ —	\$ —	\$ 135,000
Jason Stankowski	\$ 55,000	\$ 65,000	\$ —	\$ —	\$ 120,000
Nicola Maddox	\$ 34,507	\$ 40,781	\$ —	\$ —	\$ 75,288

Mr. Lovoi, who is not independent, only receives share-based awards for his service as a board member.

On a **biannual quarterly** basis, we compensate each director for services rendered (unless a director elects not to receive payment) and reimburse reasonable out-of-pocket travel expenses when incurred.

As of **May 1, 2017 January 1, 2023**, board member compensation is fixed at an annual fee of **Cdn\$80,000. Cdn\$40,000 is \$55,000** paid in cash **semi-annually in July quarterly** and **January and Cdn\$40,000 paid \$65,000** as a share-based **award. award** valued at the prior year-end share price (vesting evenly over a three year period). The chairman of the board receives an additional \$40,000 annual cash fee, the chairman of the audit committee receives an

85

additional \$15,000 annual cash fee, and the chairman of the compensation, nominating, and corporate governance committee receives an additional \$10,000 annual cash fee.

Incentive Plan Awards—Value Vested or Earned During the Year for Directors (Other Than Named Executive Officers)

Outstanding Share-Based Awards and Option-Based Awards as of **December 31, 2022 December 31, 2023** are as follows:

Name	Option-based Awards						Share-based Awards						Option-based Awards						Share-based Awards					
	Number of Securities	Underlying	Option	Option	Unexercised	Value of	Shares or Units	Number of	Payout Value	Market or	Payout Value of	Market or	Number of Securities	Underlying	Option	Option	Unexercised	Value of	Shares or Units	Number of	Payout Value	Market or	Payout Value of	Market or
	Options	Price	Date	Expiration	In-the-Money	Options	Have Not Vested	Options	Have Not Vested	Based awards	Have Not Vested	Based awards	Options	Price	Date	Expiration	In-the-Money	Options	Have Not Vested	Options	Have Not Vested	Based awards	Have Not Vested	Based awards
John Lovoi	—	\$ —	—	—	\$ —	—	31,401	\$ 208,189	\$ 65,416				—	\$ —	—	—	\$ —	—	23,403	\$ 118,8				
Stephen Finlayson	—	\$ —	—	—	\$ —	—	13,401	\$ 88,849	\$ 65,416															
Jacob Roorda	12,500	\$ 5.03	1/9/2024	—	\$ 20,000	—	13,401	\$ 88,849	\$ 65,416															
Tracy Stephens	—	\$ —	—	—	\$ —	—	13,401	\$ 88,849	\$ 65,416				—	\$ —	—	—	\$ —	—	11,403	\$ 57,9				
David Winn	—	\$ —	—	—	\$ —	—	9,734	\$ 64,536	\$ 14,586				—	\$ —	—	—	\$ —	—	11,403	\$ 57,9				
Jason Stankowski	—	\$ —	—	—	\$ —	—	9,734	\$ 64,536	\$ 14,586				—	\$ —	—	—	\$ —	—	11,403	\$ 57,9				
Nicola Maddox	—	\$ —	—	—	\$ —	—	—	—	—				—	\$ —	—	—	\$ —	—	4,101	\$ 20,8				

The values of incentive plan awards that were vested or earned during the year ended **December 31, 2022 December 31, 2023** are as follows:

Name	Option-Based Awards—Value			Share-based awards—Value			Non-Equity Incentive Plan Compensation—Value Earned			Option-Based Awards—Value			Share-based awards—Value			Non-Equity Incentive Plan Compensation—Value Earned		
	Vested During the Year			Vested During the Year			During the Year			Vested During the Year			Vested During the Year			During the Year		
John Lovoi	\$ —			\$ 83,094			\$ N/A			\$ —			\$ 97,834			\$ —		

Stephen Finlayson	\$	—	\$	83,094	\$	N/A			
Jacob Roorda	\$	—	\$	83,094	\$	N/A			
Tracy Stephens	\$	—	\$	83,094	\$	N/A	\$	—	\$ 60,509
David Winn	\$	—	\$	32,262	\$	N/A	\$	—	\$ 41,886
Jason Stankowski	\$	—	\$	32,262	\$	N/A	\$	—	\$ 41,886
Nicola Maddox							\$	—	\$ 10,414

83

Directors and Officers Liability Insurance

We maintain directors' and officers' liability insurance for the protection of our directors and officers against liability incurred by them in their capacities as our directors and officers. The policy provides an aggregate limit of liability of ~~\$30,000,000~~ ~~\$35,000,000~~ with a deductible to us retention held by the Company of \$25,000 per loss, ~~\$1,500,000~~. The current annual premium for the Directors' and Officers' liability insurance is about ~~\$350,000~~ approximately \$375,000 and is renewed re-bid annually. The premium is not allocated between Directors and Officers as separate groups.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The table set forth below is information with respect to beneficial ownership of common shares as of ~~March 23, 2023~~ March 20, 2024, by our named executive officers, by each of our directors, by all our current executive officers and directors as a group, and by each person known to us who beneficially own 5% or more of the outstanding common shares. To our knowledge, each person named in the table has sole voting and investment power with respect to the common shares identified as beneficially owned.

Unless otherwise indicated, the address of each of the individuals named below is c/o Epsilon Energy Ltd., 500 Dallas, Suite 1250, Houston, Texas 77002.

Name of Beneficial Owner	Number of Common Shares	Percentage of Common Shares Owned
5% Stockholders		
Palo Duro Energy Fund, LP (1)	2,046,035	8.85 %
JVL Advisors, LLC (2)	1,759,588	7.61 %
Solas Capital Management LLC (3)	3,608,467	15.61 %
Named Executive Officers and Directors		
Jason Stabell (4)	36,000	*
Henry Clanton (5)	80,942	*
John Lovoi (6)	1,800,287	7.79 %
Stephen Finlayson (7)	24,199	*
Jacob Roorda (8)	113,599	*
Tracy Stephens (9)	45,099	*
David Winn (10)	12,366	*
Jason Stankowski (11)	314,726	*

All executive officers and directors as a group (8 persons) ⁽¹²⁾	2,427,218	10.48 %
---	-----------	---------

86

Name of Beneficial Owner	Number of Common Shares	Percentage of Common Shares Owned
5% Stockholders		
Palo Duro Energy Fund, LP ⁽¹⁾	1,461,558	6.67 %
Solas Capital Management LLC ⁽²⁾	3,768,467	17.20 %
Named Executive Officers and Directors		
Jason Stabell ⁽³⁾	397,319	*
Henry Clanton ⁽⁴⁾	95,674	*
Andrew Williamson ⁽⁵⁾	15,244	*
John Lovoi ⁽⁶⁾	266,579	*
Tracy Stephens ⁽⁷⁾	49,401	*
David Winn ⁽⁸⁾	20,501	*
Jason Stankowski ⁽⁹⁾	347,727	*
Nicola Maddox ⁽¹⁰⁾	2,050	*
All executive officers and directors as a group (8 persons) ⁽¹¹⁾	1,194,495	5.44 %

* Indicates beneficial ownership of less than 5% of outstanding shares.

⁽¹⁾ The address of Palo Duro Energy Fund, LP, or Palo Duro is 311 S. Wacker Drive, Suite 1250, Chicago, Illinois 60606. Matthew Dougherty is the managing partner of Palo Duro and exercises the voting and dispositive power with respect to the common shares held by Palo Duro.

⁽²⁾ The address of JVL Advisors, LLC, or JVL, is 10000 Memorial Drive, Houston, Texas 77024. John Lovoi, the chairman of our board of directors, and the managing partner of JVL, exercises the voting and dispositive power with respect to the common shares held by JVL.

⁽³⁾ The address of Solas Capital Management, LLC is 405 Park Avenue, New York, NY 10022. Pursuant to a Schedule 13G filed with the SEC on February 14, 2020, Solas Capital Management, LLC ("Solas") and Frederick Tucker Golden share voting and dispositive power with respect to these common shares. All of the securities reported are owned by advisory clients of Solas, none of which is a beneficial owner of more than 5% as of July 14, 2020.

⁽⁴⁾ ⁽³⁾ Mr. Stabell is our chief executive officer and a member of our board of directors.

84

⁽⁵⁾ ⁽⁴⁾ Includes 30,000 shares issuable upon the exercise (at exercise price of \$5.03) of options exercisable within 60 days of March 25, 2021 (not yet expired) March 20, 2024. Mr. Clanton is our chief operating officer.

⁽⁵⁾ Mr. Williamson is our chief financial officer.

⁽⁶⁾ Includes the shares held by JVL. Mr. Lovoi is the chairman of our board of directors.

⁽⁷⁾ Mr. Finlayson is a member of our board of directors.

⁽⁸⁾ Mr. Roorda is a member of our board of directors. Includes 25,000 shares held by Mr. Roorda's spouse, and 12,500 shares issuable upon the exercise (at exercise price of \$5.03) of options exercisable within 60 days of March 25, 2021 (not yet expired).

⁽⁹⁾ Mr. Stephens is a member of our board of directors.

(10) (9) Mr. Winn is a member of our board of directors.

(11) (9) Mr. Stankowski is a member of our board of directors and a partner and portfolio manager for Clayton Partners, LLC.

(10) (12) Ms. Maddox is a member of our board of directors.

(11) Includes 42,500 30,000 shares issuable upon the exercise (at exercise price of \$5.03) of options exercisable within 60 days of March 25, 2021 (not yet expired) March 20, 2024.

Changes in Control. We do not know of any arrangement, the operation of which may at a subsequent date result in a change in control of us.

Securities Authorized For Issuance under Equity Compensation Plans

The information required by Item 201 of Regulation S-K in "Item 1. Business – Market for Our Common Equity and Related Stockholder Matters."

87

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Certain Relationships and Related Transactions

Since the beginning of fiscal 2022, 2023, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, except for the compensation and other arrangements described in "Executive Compensation" and "Director Compensation" elsewhere in this document and the transactions described below.

Independence of the Board of Directors

The Board is currently composed of seven five directors who provide us with a wide diversity of business experience.

Our Board has determined that Messrs. Jacob Roorda, John Lovoi, Tracy Stephens, Stephen Finlayson, Jason Stankowski, and David Winn, and Nicola Maddox are independent in accordance with the listing requirements of the NASDAQ Global Market, representing over 50% of the Board. Our Board conducted its independence analysis for each of its current members, other than John Lovoi and Michael Raleigh, considering all relevant facts and circumstances, including the director's other commercial, accounting, legal, banking, consulting, charitable and familial relationships. Pursuant to its review, the Board determined that with respect to each of its current members, other than John Lovoi and Michael Raleigh, there are no disqualifying factors with respect to director independence enumerated in the listing standards of NASDAQ or any relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and that each such member is an "independent director" as defined in the listing standards of NASDAQ.

Indemnification of Officers and Directors

Under Section 124 of the Business Corporations Act (Alberta) (the "ABCA"), except in respect of an action by or on behalf of us or body corporate to procure a judgment in our favor, we may indemnify a current or former director or officer or a person who acts or acted at our request as a director or officer of a body corporate of which we are or were a shareholder or creditor and the heirs and legal representatives of any such persons (collectively, "Indemnified Persons")

85

against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by any such Indemnified Person in respect of any civil, criminal or administrative actions or proceedings to which the director or officer is made a party by reason of being or having been our director or officer, if (i) the director or officer acted honestly and in good faith with a view to our best interests, and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the director or officer had reasonable grounds for believing that such director's or officer's conduct was lawful (collectively, the "Indemnification Conditions").

Notwithstanding the foregoing, the ABCA provides that an Indemnified Person is entitled to indemnity from us in respect of all costs, charges and expenses reasonably incurred by the person in connection with the defense of any civil, criminal or administrative action or proceeding to which the person is made a party by reason of being or having been our director or officer, if the person seeking indemnity (i) was substantially successful on the merits in the person's defense of the action or proceeding, (ii) fulfills the Indemnification Conditions, and (iii) is fairly and reasonably entitled to indemnity. We may advance funds to an Indemnified Person for the costs, charges and expenses of a proceeding; however, the Indemnified Person shall repay the moneys if such individual does not fulfill the Indemnification Conditions. The indemnification may be made in connection with a derivative action only with court approval and only if the Indemnification Conditions are met.

As contemplated by Section 124(4) of the ABCA and our by-laws, we have acquired and maintain liability insurance for our directors and officers with coverage and terms that are customary for a company of our size in our industry of operations. The ABCA provides that we may not purchase insurance for the benefit of an Indemnified Person against a liability that relates to the person's failure to act honestly and in good faith with a view to our best interests.

Our by-laws provide that, subject to the ABCA, the Indemnified Persons shall be indemnified against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by such person in respect of any civil, criminal or administrative action or proceeding to which such person is made a party by

88

reason of being or having been a director or officer of the Company or such body corporate, if the Indemnification Conditions are satisfied. In addition, pursuant to our by-laws, we may indemnify such person in such other circumstances as the ABCA or law permits.

Our by-laws also provide that none of our directors or officers shall be liable for the acts, receipts, neglects or defaults of any other director, officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to us through the insufficiency or deficiency of title to any property acquired for or on behalf of us, or for the insufficiency or deficiency of any security in or upon which any of our moneys shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of our moneys, securities or effects shall be deposited, or for any loss occasioned by any error of judgment or oversight on his part, or for any other loss, damage or misfortune which shall happen in the execution of the duties of his or her office or in relation thereto; provided that nothing in our by-laws shall relieve any director or officer from the duty to act in accordance with the ABCA and the regulations thereunder. The foregoing is premised on the requirement under our by-laws that each of our directors and officers in exercising his or her powers and discharging duties shall act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

We have entered into indemnification agreements with our directors and officers which generally require that we indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to us and our subsidiaries as directors and officers, if the indemnitees acted honestly and in good faith with a view to our best interests and, with respect to criminal or administrative actions or proceedings that are enforced by monetary penalty, if the indemnitee had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defense expenses to the indemnitees by us.

86

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following table summarizes fees billed to us for fiscal 2022 2023 and for fiscal 2021 2022 by our principal auditors, BDO USA, LLP, P.C.:

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Audit Fees:				
Audit of financial statements	\$ 395,634	\$ 407,588	\$ 374,970	\$ 395,634
Total Audit Fees	\$ 395,634	\$ 407,588	\$ 374,970	\$ 395,634

87 89

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a)1. [Financial Statements:](#)
[Report of Independent Registered Public Accounting Firm](#) (PCAOB ID 243)
[Consolidated Balance Sheets as of December 31, 2022 December 31, 2023 and December 31, 2021](#)
[Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2022 December 31, 2023 and December 31, 2021](#)
[Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2022 December 31, 2023 and December 31, 2021](#)
[Consolidated Statements of Cash Flows for the years ended December 31, 2022 December 31, 2023 and December 31, 2021](#)
[Notes to Consolidated Financial Statements](#)
- (a)2. Financial Statement Schedules:
[There are no Financial Statement Schedules included with this filing for the reason that they are not required. None.](#)
- (a)3. Exhibits
- 3.1 [Articles of Incorporation of Epsilon Energy Ltd \(incorporated by reference to Exhibit 3.1 of Form 10, File No. 001-38770, filed on December 21, 2018\).](#)
- 3.2 [Bylaws of Epsilon Energy Ltd. \(incorporated by reference to Exhibit 3.2 of Form 10, File No. 001-38770, filed on December 21, 2018\).](#)
- 3.3 [Articles of Amendment dated December 19, 2019 \(incorporated by reference to Exhibit 3.3 of Form 10, File No. 001-38770, filed on December 21, 2018\).](#)
- 4.1 [Description of Registrant's Securities Registered Under Section 12 of the Exchange Act. \(incorporated by reference to Exhibit 4.1 of Form 10-K, File No. 001-38770, filed on March 18, 2020\)](#)
- 10.1 [Credit Agreement, dated as of July 29, 2013, by and among Epsilon Energy USA Inc., the lenders from time to time party thereto, Texas Capital Bank, National Association \("TCB"\), as the administrative agent, swing line lender and letter of credit issuer, and TCB as the sole lead arranger and sole book runner \(incorporated by reference to Exhibit 10.1 of Form 10, File No. 001-38770, filed on December 21, 2018\).](#)

- 10.2 [First Amendment to Credit Agreement, effective as of December 10, 2015 \(incorporated by reference to Exhibit 10.2 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.3 [Second Amendment to Credit Agreement, effective as of October 11, 2016 \(incorporated by reference to Exhibit 10.3 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.4 [Third Amendment to Credit Agreement, effective as of February 21, 2019 \(incorporated by reference to Exhibit 10.4 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.5 [Fourth Amendment to Credit Agreement, effective as of August 4, 2019 \(incorporated by reference to Exhibit 10.5 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.6 [Fifth Amendment to Credit Agreement, effective as of January 7, 2019 \(incorporated by reference to Exhibit 10.6 of Form 10-K, File No. 001-38770, filed on March 29, 2019\)](#)
- 10.7* [Sixth Amendment to Credit Agreement, effective as of January 7, 2019](#)

88

- 10.8* [Seventh Amendment to Credit Agreement, effective as of January 7, 2019](#)
- 10.9* [Eighth Amendment to Credit Agreement, effective as of January 7, 2019](#)
- 10.10* [Ninth Amendment to Credit Agreement, effective as of January 7, 2019](#)
- 10.11+ [Henry Clanton Offer Letter \(incorporated by reference to Exhibit 10.7 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.1+ [Anchor Shipper Gas Gathering Agreement, effective January 1, 2012, by and between Appalachia Midstream Services, L.L.C. and Epsilon Energy USA, Inc., as shipper and producer \(incorporated by reference to Exhibit 10.8 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.12 10.2 [Amended and Restated 2017 Stock Option Plan \(incorporated by reference to Exhibit 10.9 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.13+ 10.3+ [Share Compensation Plan \(incorporated by reference to Exhibit 10.10 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.14+ 10.4+ [Agreement for the Construction, Ownership, and Operation of Midstream Assets in AMI Area D of Northern Pennsylvania effective the 1st day of January, 2012, by and between Statoil Pipelines, LLC, a Delaware limited liability company formerly known as StatoilHydro Pipelines, LLC, Epsilon Midstream LLC, a Pennsylvania limited liability company, and Appalachia Midstream Services, L.L.C., an Oklahoma limited liability company \(incorporated by reference to Exhibit 10.11 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)
- 10.15 10.5 [Jason Stabell Executive Employment Agreement \(incorporated by reference to Exhibit 10.1 of Form 8-K, File No. 001-38770, filed on June 24, 2022\)](#)
- 10.16+ [10.17+ 10.6+](#)

10.7+ [Andrew Williamson Executive Employment Agreement \(incorporated by reference to Exhibit 10.1 of Form 8-K, File No. 001-38770, filed on June 24, 2022\)](#)

90

10.8* [Credit Agreement, dated as of June 28, 2023, by and among Epsilon Energy USA Inc., Frost Bank, as agent and issuing bank, and the lenders from time to time party hereto.](#)

21.1 [Subsidiaries of the Registrant \(incorporated by reference to Exhibit 21.1 of Form 10, File No. 001-38770, filed on December 21, 2018\)](#)

23.1* [Consent of DeGolyer and MacNaughton](#)

23.2* [Consent of BDO USA, LLP P.C.](#)

31.1* [Rule 13a-14\(a\)/15d-14\(a\) Certification.](#)

31.2* [Rule 13a-14\(a\)/15d-14\(a\) Certification.](#)

32.1** [Section 1350 Certifications.](#)

32.2** [Section 1350 Certifications.](#)

97.1* [Epsilon Energy Ltd. Clawback Policy](#)

99.1* [Summary Reserve Report](#)

101.INS* Inline XBRL Instance Document.

101.SCH* Inline XBRL Taxonomy Extension Schema Document.

101.CAL* Inline XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF* Inline XBRL Taxonomy Extension Definition Linkbase Document.

89

101.LAB* Inline XBRL Taxonomy Extension Label Linkbase Document.

101.PRE* Inline XBRL Taxonomy Extension Presentation Linkbase Document.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

- ** Furnished herewith.
- + Denotes a management contract or compensatory plan or arrangement.

90 91

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on **March 23, 2023** **March 20, 2024**.

EPSILON ENERGY LTD.

By: */s/ J. Andrew Williamson*

J. Andrew Williamson

Chief Financial Officer

(duly authorized to sign on behalf of the registrant)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated:

Signature	Title	Date
<i>/s/ Jason Stabell</i>	Chief Executive Officer and Director	March 23, 2023 20, 2024
Michael Raleigh Jason Stabell	(Principal Executive Officer)	
<i>/s/ J. Andrew Williamson</i>	Chief Financial Officer	March 23, 2023 20, 2024
B. Lane Bond J. Andrew Williamson	(Principal Financial and Accounting Officer)	
<i>/s/ John Lovoi</i>	Chairman of the Board	March 23, 2023 20, 2024
John Lovoi		
<i>/s/ Stephen Finlayson</i>	Director	March 23, 2023
Stephen Finlayson		
<i>/s/ Jacob Roorda</i>	Director	March 23, 2023
Jacob Roorda		
<i>/s/ Jason Stankowski</i>	Director	March 23, 2023 20, 2024
Jason Stankowski		
<i>/s/ Tracy Stephens</i>	Director	March 23, 2023 20, 2024
Tracy Stephens		

/s/ David Winn

Director

March 23, 2023 20, 2024

David Winn

/s/Nicola Maddox

Director

March 20, 2024

Nicola Maddox

91 92

Exhibit 10.7 10.8

SIXTH AMENDMENT TO CREDIT AGREEMENT

This **SIXTH AMENDMENT TO CREDIT AGREEMENT** (this "Amendment") is entered into as of August 14, 2019 (the "Sixth Amendment Execution Date"), among **EPSILON ENERGY USA INC** ("Borrower"), the **LENDERS** (as hereinafter defined), and **TEXAS CAPITAL BANK, NATIONAL ASSOCIATION**, as administrative agent for the Lenders (in such capacity, "Administrative Agent").

WHEREAS, Borrower, the financial institutions party thereto (collectively, together with their respective successors and assigns, the "Lenders"), and Administrative Agent are parties to that certain Credit Agreement dated as of July 29, 2013, as amended by First Amendment to Credit Agreement dated as of December 10, 2015, Second Amendment to Credit Agreement dated as of October 11, 2016, Third Amendment to Credit Agreement dated as of February 21, 2017, Fourth Amendment to Credit Agreement dated as of August 4, 2017, and Fifth Amendment to Credit Agreement dated as of January 7, 2019 (as so amended, the "Credit Agreement");

WHEREAS, Borrower has requested that Administrative Agent and the Lenders amend the Credit Agreement as hereinafter provided;

WHEREAS, subject to the terms and conditions set forth herein, Administrative Agent and the Lenders are willing to agree to such amendments; and

WHEREAS, Borrower, the Lenders and Administrative Agent acknowledge that the terms of this Amendment constitute an amendment and modification of, and not a novation of, the Credit Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Unless otherwise defined in this Amendment, capitalized terms used in this Amendment that are defined in the Credit Agreement shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Amendments to the Credit Agreement. Subject to satisfaction of the conditions of effectiveness set forth in **Section 3** of this Amendment, the parties hereto agree that:

(a) **Section 7.1(a)** of the Credit Agreement is hereby amended to delete the reference to "ninety (90) days" and to replace it with "one hundred twenty (120) days".

(b) **Article 7** of the Credit Agreement is hereby amended to add new **Section 7.17** to read as follows:

Section 7.17 Commodity Hedging. To the extent Utilization at any time exceeds 25%, Borrower shall either (a) immediately prepay the entire amount of such excess to Administrative Agent, for the ratable account of Revolving Credit Lenders, or (b) within 3 Business Days of such occurrence, enter into, and thereafter maintain,

Sixth Amendment to Credit Agreement CREDIT AGREEMENT

among

EPSILON ENERGY USA INC.

as Borrower,

FROST BANK,

as Agent and Issuing Bank

and

THE LENDERS FROM TIME TO TIME PARTY HERETO

Dated as of June 28, 2023

Acceptable Commodity Hedging Agreements at strike prices acceptable to Administrative Agent covering at least 75% of Projected Production of natural gas for the first full 12 months after such occurrence and 50% of Projected Production of natural gas for the succeeding 6 months.

SECTION 3. Conditions of Effectiveness. The amendments set forth in Section 2 of this Amendment, as well as any other terms and conditions set forth herein, shall be effective as of date Administrative Agent shall have received each of the following, which shall be in form and substance satisfactory to Administrative Agent:

- (a) counterparts of this Amendment executed by Borrower, Guarantors, the Lenders and Administrative Agent;
- (b) all fees and expenses required to be paid pursuant to the Loan Documents, including, without limitation, the fees and expenses of Winstead PC invoiced on or prior to the Sixth Amendment Execution Date; and
- (c) such other certificates, documents, consents or opinions as the Administrative Agent reasonably may require.

SECTION 4. Reaffirmation of Borrowing Base. Subject to the satisfaction of the conditions of effectiveness set forth in Section 3 of this Amendment and effective as of the Sixth Amendment Execution Date, the Borrowing Base is hereby reaffirmed at \$23,000,000. The foregoing redetermination of the Borrowing Base is a periodic redetermination of the Borrowing Base under Section 2.10(b) of the Credit Agreement. The Borrowing Base as so redetermined shall remain in effect until the next periodic redetermination of the Borrowing Base under Section 2.10(b) of the Credit Agreement, unless otherwise adjusted pursuant to the other provisions of Section 2.10 of the Credit Agreement.

SECTION 5. Acknowledgment and Ratification. As a material inducement to Administrative Agent and the Lenders to execute and deliver this Amendment, each Obligated Party acknowledges and agrees that the execution, delivery, and performance of this Amendment shall, except as expressly provided herein, in no way release, diminish, impair, reduce, or otherwise affect the obligations of any Obligated Party under the Loan Documents, which Loan Documents shall remain in full force and effect.

SECTION 6. Borrower's Representations and Warranties. As a material inducement to Administrative Agent and the Lenders to execute and deliver this Amendment, each Obligated Party represents and warrants to Administrative Agent and the Lenders (with the knowledge and intent that Administrative Agent and the Lenders are relying upon the same in entering into this Amendment) that, as of the Sixth Amendment Execution Date:

(a) The execution, delivery, and performance by such Person of this Amendment and compliance with the terms and provisions hereof have been duly authorized by all requisite action on the part of such Person and do not and will not (i) violate or conflict with, or result in a breach of, or require any consent under (A) the Constituent Documents of such Person, (B) any applicable law, rule, or regulation or any order, writ, injunction, or decree of any Governmental

Sixth Amendment to Credit Agreement

Page 2

Authority or arbitrator which could result in a Material Adverse Event, or (C) any agreement or instrument to which such Person is a party or by which it or any of its Properties is bound or subject which could result in a Material Adverse Event, or (i) constitute a default under any such agreement or instrument which could result in a Material Adverse Event, or result in the creation or imposition of any Lien upon any of the revenues or assets of such Person.

(b) This Amendment constitutes legal, valid, and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as limited by Debtor Relief Laws.

(c) No authorization, approval, or consent of, and no filing or registration with, any Governmental Authority or third party is or will be necessary for the execution, delivery, or performance by such Person of this Amendment or the validity or enforceability hereof.

(d) All of the representations and warranties contained in Article 6 of the Credit Agreement are true and correct on and as of the Sixth Amendment Execution Date with the same force and effect as if such representations and warranties had been made on and as of the Sixth Amendment Execution Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 7(d), the representations and warranties contained in Section 6.2 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 7.1(a) and (b) of the Credit Agreement, respectively.

(e) At the time of and after giving effect to this Amendment, no Default exists.

SECTION 7. Effect of Amendment. This Amendment, except as expressly provided herein, (a) shall not be deemed to be a consent to the modification or a waiver of any other term or condition of the Credit Agreement, any Security Document or any other Loan Document, (b) shall not prejudice any right or rights which Administrative Agent or the Lenders may now or hereafter have under or in connection with the Credit Agreement, any Security Document or any other Loan Document, and (c) shall not be deemed to be a waiver of any existing or future Default under the Credit Agreement, any Security Document or any other Loan Document.

SECTION 8. Miscellaneous. This Amendment shall be governed by, and construed in accordance with, the laws of the State of Texas. The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof. This Amendment may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In evidencing this Amendment, it shall not be necessary to produce or account for more than one such counterpart. This Amendment, and any documents required or requested to be delivered pursuant to Section 3 hereof, may be delivered by facsimile or pdf transmission of the relevant signature pages hereof and thereof, as applicable.

SECTION 9. Ratification. Each Obligated Party ratifies and acknowledges that the Loan Documents to which it is a party are valid, subsisting and enforceable, except as limited by Debtor Relief Laws.

Sixth Amendment to Credit Agreement

Page 3

SECTION 10. NOTICE **TABLE OF FINAL AGREEMENT.** THIS AMENDMENT, THE OTHER LOAN DOCUMENTS AND THE INTERCREDITOR AGREEMENT REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Remainder of page intentionally left blank. Signature pages follow.]

Sixth Amendment to Credit Agreement **CONTENTS**

Page 4

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the Sixth Amendment Execution Date.

	EPSILON ENERGY USA INC,
ARTICLE I. DEFINITIONS AND ACCOUNTING MATTERS	1
Section 1.01 Terms Defined Above	1
Section 1.02 as Borrower Certain Defined Terms	1
Section 1.03 Accounting Terms and Determinations	23
Section 1.04 Terms Generally	23
Section 1.05 Divisions	23
Section 1.06 Rates	23
Section 1.07 Conforming Changes	24
ARTICLE II. COMMITMENTS	24
Section 2.01 Loans and Letters of Credit	24
Section 2.02 Borrowings and Letters of Credit	24
Section 2.03 Changes of Commitments	25
Section 2.04 Fees	26
Section 2.05 Several Obligations	26
Section 2.06 Notes	26
Section 2.07 Prepayments	27
Section 2.08 Borrowing Base	28
Section 2.09 Assumption of Risks	30
Section 2.10 Obligation to Reimburse and to Prepay	30
Section 2.11 Lending Offices	32
	/s/ B. Lane
ARTICLE III. PAYMENTS OF PRINCIPAL AND INTEREST	By: Bond32
	B. LANE
Section 3.01 Name: Repayment of Loans	BOND 32
Section 3.02 Title: Interest	CFO 32
ARTICLE IV. PAYMENTS; PRO RATA TREATMENT; COMPUTATIONS; ETC	34
Section 4.01 Payments	34
Section 4.02 Pro Rata Treatment	34
Section 4.03 Computations	34

Section 4.04	Non-receipt of Funds by Agent	34
Section 4.05	Set-off, Sharing of Payments, Etc	35
Section 4.06	Taxes	36
ARTICLE V. ADDITIONAL COSTS		39
Section 5.01	ACKNOWLEDGED AND AGREED: Additional Costs	39
Section 5.02	Illegality	40
Section 5.03	Indemnity	40
Section 5.04	Mitigation Obligations; Replacement of Lenders	40
ARTICLE VI. CONDITIONS PRECEDENT		41
Section 6.01	EPSILON ENERGY LTD., Initial Funding	41
Section 6.02	as a Guarantor Initial and Subsequent Loans and Letters of Credit	43
Section 6.03	Conditions Precedent for the Benefit of Lenders	43
Section 6.04	No Waiver	43
ARTICLE VII. REPRESENTATIONS AND WARRANTIES		43
Section 7.01	Corporate Existence	44
Section 7.02	Financial Condition	44
Section 7.03	Litigation	44
Section 7.04	No Breach	44
Section 7.05	Authority	44
Section 7.06	Approvals	44
Section 7.07	Use of Loans	45

i

Section 7.08	ERISA	45
Section 7.09	Taxes	46
Section 7.10	Titles, Etc.	46
Section 7.11	No Material Misstatements	47
Section 7.12	Investment Company Act	47
Section 7.13	Subsidiaries	47
Section 7.14	Location of Business and Offices; Tax Identification and Organizational Identification Numbers	47
Section 7.15	Defaults	47
Section 7.16	Environmental Matters	48
Section 7.17	Compliance with the Law	49
Section 7.18	Insurance	49
Section 7.19	Hedging Agreements	49
Section 7.20	Restriction on Liens	49
Section 7.21	Material Agreements	49
Section 7.22	Solvency	50
Section 7.23	Gas Imbalances	50
Section 7.24	Anti-Terrorism; Anti-Money Laundering; FCPA	50
Section 7.25	Affected Financial Institution	50
Section 7.26	Hedge Activity	50

ARTICLE VIII. AFFIRMATIVE COVENANTS

/s/ B.

Lane

By: Bond 51

Section 8.01	Name: Reporting Requirements	B. LANE
Section 8.02	Title: Notices of Material Events	BOND 51
Section 8.03	Maintenance, Etc.	CFO 53
Section 8.04	Environmental Matters	53
Section 8.05	Further Assurances	55
Section 8.06	Performance of Obligations	55
Section 8.07	Engineering Reports	56
Section 8.08	Title Information Delivery	56
Section 8.09	Collateral	56
Section 8.10	ERISA Information and Compliance	57
Section 8.11	Hedging Agreements	58
Section 8.12	Accounts	58
Section 8.13	Keepwell (Commodity Exchange Act)	58
Section 8.14	FCPA; Etc	58
Section 8.15	Subsidiaries	59

ARTICLE IX. NEGATIVE COVENANTS

Section 9.01	Debt	59
Section 9.02	Liens	59
Section 9.03	Investments, Loans and Advances	60
Section 9.04	Dividends, Distributions and Redemptions	60
Section 9.05	Sales and Leasebacks	60
Section 9.06	Nature of Business, Constituent Documents, and Accounting	61
Section 9.07	Mergers, Etc.	61
Section 9.08	Proceeds of Notes; Letters of Credit	61
Section 9.09	ERISA Compliance	62
Section 9.10	Sale or Discount of Receivables	62
Section 9.11	Financial Covenants	63
Section 9.12	Sale of Properties	63
Section 9.13	Environmental Matters	63
Section 9.14	Transactions with Affiliates	63
Section 9.15	Subsidiaries	63

Section 9.16	Negative Pledge Agreements	64
Section 9.17	Gas Imbalances, Take-or-Pay or Other Prepayments	64
Section 9.18	Hedging Agreements	64

ARTICLE X. EVENTS OF DEFAULT; REMEDIES

EPSILON

MIDSTREAM,

LLC, 65

Section 10.01	as a Guarantor Events of Default	65
Section 10.02	Remedies	67

By:	Epsilon Energy USA Inc,	
ARTICLE XI. AGENT		67
Section 11.01	its Managing Member Appointment and Powers; Exculpatory Provisions	67
Section 11.02	Reliance by Agent	68
Section 11.03	Default	69
Section 11.04	Rights as a Lender	69
Section 11.05	INDEMNIFICATION	69
Section 11.06	Non-Reliance on Agent and other Lenders	69
Section 11.07	Action by Agent; Delegation of Duties	70
Section 11.08	Resignation of Agent	70
Section 11.09	Authorization to Execute other Loan Documents, Releases, Etc	71
Section 11.10	Agent May File Proofs of Claim	72
Section 11.11	Agency for Perfection	72
Section 11.12	Right to Perform, Preserve and Protect	72
Section 11.13	Additional Titled Agents	73
ARTICLE XII. MISCELLANEOUS		73
Section 12.01	Waiver	73
Section 12.02		/s/ B. Lane
	By: Notices	Bond73
Section 12.03		B. LANE
	Name: Payment of Expenses, Indemnities, Etc	BOND 73
Section 12.04	Title: Amendments, Etc	CFO 76
Section 12.05	Successors and Assigns	76
Section 12.06	Assignments and Participations	76
Section 12.07	Defaulting Lenders	80
Section 12.08	Invalidity	83
Section 12.09	Counterparts; Delivery of Electronic Signature Page	83
Section 12.10	Survival	83
Section 12.11	Captions	83
Section 12.12	NO ORAL AGREEMENTS	83
Section 12.13	GOVERNING LAW; SUBMISSION TO JURISDICTION	83
Section 12.14	Interest	84
Section 12.15	Confidentiality	85
Section 12.16	USA Patriot Act	86
Section 12.17	EXCULPATION PROVISIONS	86

Sixth Amendment to Credit Agreement-Signature Pageiii

ANNEXES
ACKNOWLEDGED
AND AGREED:

Annex I List of Percentage Shares and Maximum Credit Amounts

EXHIBITS

Exhibit A DEWEY ENERGY Form of Note
HOLDINGS, LLC,
Exhibit B as a Guarantor Form of Borrowing Request
Exhibit C Form of Compliance Certificate

SCHEDULES

Schedule 7.03	-	Litigation
Schedule 7.13	By:	/s/ B. Lane BondSubsidiaries
Schedule 7.14	Name:	B. LANE BOND Location of Business, Etc.
Schedule 7.16	Title:	CFO Environmental Matters
Schedule 7.18	-	Insurance
Schedule 7.19	-	Hedging Agreements
Schedule 7.21	DEWEY ENERGY GP, LLC, as a Guarantor	Material Agreements Gas Imbalances
Schedule 7.23	-	Debt
Schedule 9.01	-	Liens
Schedule 9.02	By:	/s/ B. Lane BondInvestments
Schedule 9.03	Name:	B. LANE BOND Sale of Properties
Schedule 9.12	Title:	CFO Transactions with Affiliates
Schedule 9.14		

Sixth Amendment to Credit Agreement-Signature Pageiv

TEXAS CAPITAL BANK, NATIONAL
ASSOCIATION,
as Administrative Agent and a Lender

By: /s/ Jamie Hibbert
Name: Jamie Hibbert
Title: Vice President

Sixth Amendment to Credit Agreement-Signature Page

Exhibit10.8CREDIT AGREEMENT

SEVENTH AMENDMENT TO CREDIT AGREEMENT

This SEVENTH AMENDMENT TO CREDIT AGREEMENT (this “AmendmentAgreement”) is entered into, dated as of April 6, 2021 (the “Seventh Amendment Execution Date”) June 28, 2023, is among EPSILON ENERGY USA INC INC.(, an Ohio corporation (“Borrower”), each of the lenders that is a signatory hereto or which becomes a signatory hereto as provided in LENDERS Section 12.06 (as hereinafter defined) individually, together with its successors and assigns, a “Lender” and, collectively, the “Lenders”), and TEXAS CAPITAL FROST BANK, NATIONAL ASSOCIATION, as administrative agent (in such capacity, together with its successors in such capacity, the “Agent”) for the Lenders, (in such capacity, and as letter of credit issuer (the “Administrative AgentIssuing Bank”).

WHEREAS, Borrower has requested that **Administrative Agent** Lenders extend credit to Borrower as described in this Agreement, and the Lenders amend the Credit Agreement as hereinafter provided;

WHEREAS, subject to the terms and conditions set forth herein, **Administrative Agent and the** Lenders are willing to **agree make such** credit available to **such amendments**; Borrower upon and subject to the provisions, terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the **Credit Agreement**.

NOW, THEREFORE, for good premises and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Unless otherwise defined in this Amendment, capitalized terms used in this Amendment that are defined in the Credit Agreement shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Amendments to the Credit Agreement. Subject to satisfaction of the conditions of effectiveness set forth in Section 3 of this Amendment, mutual covenants herein contained, the parties hereto agree that:

(a) **Section 1.1** of the Credit Agreement is hereby amended to amend and restate the following definitions in their respective entireties to read as follows:

ARTICLE I.

DEFINITIONS AND ACCOUNTING MATTERS

Section 1.01 Terms Defined Above. As used in this Agreement, the terms defined in the opening paragraph and the recitals above have the meanings indicated therein.

Section 1.02 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (all terms defined in this *Article I* or in other provisions of this Agreement in the singular to have equivalent meanings when used in the plural and vice versa):

"Acceptable Security Interest" in any Property means a perfected Lien which (a) exists in favor of Agent for the benefit of the Beneficiaries, (b) is superior to all Liens or rights of any other Person in the Property encumbered thereby, other than Permitted Liens, and (c) secures the Obligations.

"Adjusted LIBOR Affiliate" of any Person means another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Aggregate Commitments" at any time shall equal the amount calculated in accordance with **Section 2.03(a)**.

"Aggregate Maximum Credit Amounts" at any time shall equal the sum of the Maximum Credit Amounts of the Lenders, as the same may be reduced pursuant to **Section 2.03(b)**. As of the Effective Date, the Aggregate Maximum Credit Amounts equals \$150,000,000, subject in all events to the then-effective Borrowing Base.

"Applicable Lending Office" means, with respect for each Lender, the lending office of such Lender (or an Affiliate of such Lender) designated on the signature pages hereof or such other offices of such Lender (or of an Affiliate of such Lender) as such Lender may from time to time specify to Agent and Borrower as the office by which its Loans are to be made and maintained.

"Applicable Margin" means, for any Interest Period or day, as applicable, an interest rate date and any Benchmark, three and one-quarter percent (3.25%) per annum, equal as adjusted from time to LIBOR for time

"Approved Counterparty" means (i) any Lender or Affiliate of a Lender and (ii) any other Person that at the time it made or entered into such Interest Period trade or day multiplied by the Statutory Reserve Rate; provided, however, if Adjusted LIBOR shall be less than 0.25%, confirmation under a Hedging Agreement, such rate shall be deemed to be 0.25% for purposes Person was a Lender or an Affiliate of a Lender under this Agreement.

"Approved Third Party Hedge Provider" means any Person engaged in the business of entering into Hedging Agreements that (i) has (or the credit support provider of such Person has), at the time Borrower enters into a Hedging Agreement with such Person, a long term senior unsecured debt rating of A- or better from S&P or A3 or better from Moody's, and (ii) is acceptable to Agent and the Required Lenders in their sole discretion.

Seventh Amendment to Credit Agreement "Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Applicable Margin Assignment" means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by **Section 12.06**), and accepted by Agent, in substantially the form of **Exhibit D** or any other form approved by Agent.

"Availability" means, at any time, (a) the lesser of (i) the Aggregate Maximum Credit Amounts and (ii) the Borrowing Base less (b) the aggregate outstanding principal amount of Loans together with the LC Exposure.

"Banking Services" means each and any of the following bank services provided to Borrower or any Subsidiary by any Lender or any Affiliate of a Lender: (a) commercial credit cards and (b) treasury management services (including controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

"Banking Services Obligations" means any and all obligations of Borrower or any Subsidiary, whether absolute or contingent and howsoever and whenever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Banking Services.

"Banking Services Provider" means any Lender or Affiliate of a Lender that provides Banking Services to Borrower or any Subsidiary.

"Benchmark" means, initially Daily Simple SOFR provided that if a replacement of Benchmark has occurred pursuant to **Section 3.02(a)(ii)**, then **"Benchmark"** means the applicable percentages per annum Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate. Any reference to **"Benchmark"** shall include, as applicable, the published component used in the calculation thereof.

"Benchmark Replacement" means, for the then-current Benchmark, for purposes of **Section 3.02(a)(ii)**, the first alternative set forth below based upon the Utilization applicable from time to time. The Applicable Margin shall immediately and automatically change when and as the Utilization changes, that can be determined by Agent:

Pricing Level	Utilization	Base Rate Portion	LIBOR Portion and Letter of	Commitment Fee
1	< 25%	2.25%	3.25%	0.50%
2	≥ 25% but < 50%	2.50%	3.50%	0.50%
3	≥ 50% but < 75%	2.75%	3.75%	0.50%
4	≥ 75% but < 90%	3.00%	4.00%	0.50%

5	≥ 90%	3.25%	4.25%	0.50%
---	-------	-------	-------	-------

"(i) **Maturity Date**" means March 1, 2024, or such earlier date on which the Commitment of each Revolving Credit Lender terminates as provided in this Agreement; **provided, however**, that if such date is not a Business Day, the Maturity Date shall be the next succeeding Business Day.

(b) **Section 1.1** of the Credit Agreement is hereby amended to add the following definitions in proper alphabetical order to read as follows:

"Benchmark Replacement" means the sum of: (a) the alternate benchmark rate (i) Daily Simple SOFR and (ii) an adjustment (which may include Term SOFR) be a positive or negative value or zero) that has been selected by Administrative Agent and Borrower giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention, including any applicable recommendations made by the Relevant Governmental Body, for determining a rate of interest as a replacement to LIBOR for Dollar-denominated U.S. dollar-denominated syndicated or bilateral credit facilities and (b) the Benchmark Replacement Adjustment; **provided** that, if the Benchmark Replacement as so determined would be less than 0.25%, the Benchmark Replacement will be deemed to be 0.25% for the purposes of this Agreement. **at such time**;

"(ii) **Benchmark Replacement Adjustment**" means, with respect the sum of (i) the Effective Federal Funds Rate and (ii) an adjustment (which may be a positive or negative value or zero) that has been selected by Agent giving due consideration to

2

any replacement evolving or then-prevailing market convention, including any applicable recommendations made by the Relevant Governmental Body, for U.S. dollar-denominated syndicated or bilateral credit facilities at such time; or

(iii) the sum of LIBOR with (i) the alternate benchmark rate and (ii) an Unadjusted Benchmark Replacement for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero), in each case, that has been selected by Administrative Agent and Borrower as the replacement for such Benchmark giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of LIBOR with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention, including any applicable recommendations made by the Relevant Governmental Body, for determining a spread adjustment, U.S. dollar-denominated syndicated or method for calculating or determining such spread adjustment, for the replacement of LIBOR with the applicable Unadjusted Benchmark Replacement for Dollar-denominated syndicated bilateral credit facilities at such time, time;

Seventh Amendment **provided** that, if the Benchmark Replacement as determined above would be less than the Floor, the Benchmark Replacement will be deemed to **Credit Agreement** be the Floor for the purposes of the Note and the other Loan Documents.

"Benchmark Replacement Conforming ChangesChanges" means, with respect to any Benchmark Replacement, any technical, administrative or operational operations changes (including changes to the definition of "Base Rate," "Business Day", the definition of "Interest Period, Period", the definition of "U.S. Government Securities Business Day," the timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods, the applicability and length of lookback periods, the applicability of breakage provisions, and other technical, administrative or operational matters) that Administrative Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark

Replacement and to permit the administration thereof by **Administrative Agent** in a manner substantially consistent with market practice (or, if **Administrative Agent** decides that adoption of any portion of such market practice is not administratively feasible or if **Administrative Agent** determines that no market practice for the administration of **the such Benchmark Replacement** exists, in such other manner of administration as **Administrative Agent Lender** decides is reasonably necessary in connection with the administration of this **Agreement**) **Agreement and the other Loan documents**).

"Benchmark Replacement Date Transition Event" means, with respect to any then-current Benchmark, the **earlier first** to occur of the following events with respect to LIBOR: (1) in the case of **clause (1)(a)** or **(2)** of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of LIBOR permanently or indefinitely ceases to provide LIBOR; or (2) in the case of **clause (3)** of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to LIBOR: (1) **below, as confirmed by** a public statement or publication of information by or on behalf of the administrator of LIBOR announcing that such administrator has ceased or will cease to provide LIBOR, permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide LIBOR; (2) a public statement or publication of information by **then-current Benchmark**, the regulatory supervisor for the administrator of LIBOR, **such Benchmark**, the **U.S. Board of Governors of the Federal Reserve System**, **the Federal Reserve Bank of New York**, an insolvency official with jurisdiction over the administrator for LIBOR, **such Benchmark**, a resolution authority with jurisdiction over the administrator for LIBOR, **such Benchmark** or a court or an entity with similar insolvency or resolution authority over the administrator for LIBOR, **such Benchmark**: (a) the specified date on which **states that** the administrator of LIBOR has ceased or will cease **the then-current Benchmark ceases** to provide LIBOR, **such Benchmark**, permanently or indefinitely, **provided that**, at **the such time**, of such statement or publication, there is no successor administrator that will continue to provide LIBOR, **such Benchmark**; or (3) a public statement or publication of information by (b) the regulatory supervisor for the administrator of LIBOR announcing that LIBOR specified date on which such Benchmark is no longer **representative**. **representative of the underlying market and economic reality that such Benchmark is intended to measure and that representativeness will not be restored.**

"Benchmark Transition Start Date Beneficial Ownership Certification" means (a) a certification regarding beneficial ownership required by the Beneficial Ownership Regulation, which certification shall be substantially similar in form and substance to the **case form of a Benchmark Transition Event, Certification Regarding Beneficial Owners of Legal Entity Customers** published jointly, in May 2018, by the **earlier Loan Syndications and Trading Association and Securities Industry and Financial Markets Association**.

"Beneficial Ownership Regulation" means 31 C.F.R. § 1010.230.

"Beneficiaries" means Agent, the Lenders, the Issuing Bank and each Approved Counterparty and each Banking Services Provider.

"Borrowing Base" means at any time the loan amount that may be supported by the Oil & Gas Properties of Borrower and its Subsidiaries, as determined by Agent and approved by Required Lenders, or all of the Lenders, as applicable, as set out in **Section 2.08** hereof. As of the Effective Date, the Borrowing Base shall be \$35,000,000, as redetermined from time to time in accordance with **Section 2.08**.

"Borrowing Base Deficiency" means, and occurs when, the amount by which the sum of (i) the **applicable Benchmark Replacement Date and aggregate outstanding principal amount of the Loans**, plus (ii) **if such Benchmark Transition Event is a public statement or publication of information the LC Exposure**, exceeds the Borrowing Base, whether as the result of a **prospective event**, redetermination, a scheduled reduction, or otherwise.

"Borrowing Base Properties" means the 90th day prior Oil and Gas Properties of the Loan Parties described in the most recent Reserve Report, but excluding any Oil and Gas Properties to which no Proven Reserves are attributed or that Borrower and Agent otherwise concur have not been given value in the most recent determination of the Borrowing Base.

"Borrowing Date" means the date elected by Borrower pursuant to **Section 2.02(a)**.

"Borrowing Request" means a Loan request duly executed by Borrower, substantially in the form of **Exhibit B**.

"Borrowing Base Utilization" means at any time, an amount equal to the expected quotient of (i) the aggregate principal amount of Loans outstanding plus LC Exposure, divided by (ii) the Borrowing Base.

"Business Day" means any day other than a day on which commercial banks are authorized or required to close in Houston, Texas.

"Cash Collateralize" means, to pledge and deposit with or deliver to Agent, for the benefit of Issuing Bank or the Lenders, as collateral for LC Exposure or obligations of Lenders to fund participations in respect of LC Exposure, cash or deposit account balances or, if Agent and Issuing Bank shall agree in their sole discretion, other credit support, in each case pursuant to documentation in form and substance reasonably satisfactory to Agent and Issuing Bank. **"Cash Collateral"** shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

"Cash Equivalents" means:

(a) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, in each case maturing within one year from the date of such event as of such public statement or publication of information (or if creation thereof.

(b) commercial paper maturing within one year from the expected date of such prospective event creation thereof rated in the highest grade by S&P or Moody's.

(c) demand deposits, and time deposits maturing within one year from the date of creation thereof, with, or issued by any Lender or any office located in the United States of any other bank or trust company which is fewer than 90 days after such statement organized under the laws of the United States or publication, any state thereof, has capital, surplus and undivided profits aggregating at least \$100,000,000 (as of the date of such statement bank or publication) trust company's most recent financial reports) and (b) has a short term deposit rating no lower than an investment grade rating (A-3 by S&P, P-3 by Moody's or F-3 by Fitch), as such rating is set forth from time to time, by at least two of the following rating agencies: S&P, Moody's or Fitch.

(d) shares in any SEC registered 2a-7 money market fund that has net assets of at least \$500,000,000 and the case highest rating available from any of an Early Opt-in Election, the date specified by Administrative Agent S&P, Moody's or the Required Lenders, as applicable, by notice to Borrower, Fitch.

Seventh Amendment to Credit Agreement

Page 34

"Change of Control" means an event or series of events by which Parent shall cease for any reason to have record and beneficial ownership of 100% of the case Equity Interests of Borrower.

"Code" means the Internal Revenue Code of 1986, as amended from time to time and any successor statute.

"Collateral" means substantially all the Property owned by Borrower or any Subsidiary, as described in the Security Documents, including, among other things, the Mortgaged Properties and any other Property which may now or hereafter secure the Obligations or any part thereof.

"Commitment" means, for any Lender, its obligation to make Loans to Borrower and to participate in the Letters of Credit as provided in **Section 2.01(b)** up to the lesser of (i) such Lender's Maximum Credit Amount, and (ii) the Lender's Percentage Share of the amount equal to the then effective Borrowing Base.

"Commodity Exchange Act" means the Commodity Exchange Act (7 U.S.C. §1 *et seq.*), as amended from time to time, and any successor statute, or any rule, regulation or order of the U.S. Commodity Futures Trading Commission (or the application or official interpretation of any thereof).

"Compliance Certificate" means a certificate from Borrower substantially in the form of **Exhibit C**.

"Connection Income Taxes" means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

"Consolidated Current Assets" means, as of any date, the current assets which would be reflected on a balance sheet of Parent, prepared as of such notice by date in accordance with GAAP, provided that Consolidated Current Assets shall not include (i) Availability, (ii) the Required Lenders) amount of any non-cash items as a result of the application of ASC Topic 815 and any subsequent amendments thereto; or (iii) the Lenders' fair value of any Hedging Agreements and other derivative contracts (whether deemed effective or non-effective).

"Consolidated Current Liabilities" means, as of any date, the consolidated current liabilities which would be reflected on a balance sheet of Parent, for any period, prepared as of such date in accordance with GAAP thereto or the fair value of any Hedges or any and other derivative contract (whether deemed effective or non-effective) and current maturities of funded indebtedness of Borrower.

"Benchmark Unavailability Period Consolidated Net Income" means if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to LIBOR and solely Parent, for any period, the aggregate of the net income (or loss) of Parent, after allowances for taxes for such period, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded from such net income (to the extent otherwise included therein) the following: (i) the net income of any Person in which Parent has an interest (which interest does not cause the net income of such other Person to be consolidated with the net income of Parent in accordance with GAAP) except to the extent of the amount of dividends or distributions actually paid in such period by such other Person to Parent; (ii) the net income (but not loss) of any Subsidiary to the extent that LIBOR has the declaration or payment of dividends or similar distributions or transfers or loans by that Subsidiary is not been replaced with a Benchmark Replacement, the period (x) beginning at the time that permitted by operation of the terms of its charter or any agreement, instrument or Governmental Requirement applicable to such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced LIBOR for all purposes hereunder Subsidiary, or is otherwise restricted or prohibited in each case determined in accordance with **Section 3.3(b)** GAAP; (iii) the net income (or loss) of any Person acquired in a pooling-of-interests transaction for any period prior to the date of such transaction; (iv) any extraordinary gains or losses, including gains or losses attributable to Property sales not in the ordinary course of business; (v) any non-cash gains or losses or positive or negative adjustments under FASB ASC 815 (and any statement replacing, modifying, or superseding such statement) as the result of changes in the fair market value of derivatives; and (y) ending at (vi) the time cumulative effect of a change in accounting principles and any gains or losses attributable to write ups or write downs of assets.

"Constituent Documents" means, as applicable, for any Person that a Benchmark Replacement has replaced LIBOR for is not an individual, the articles or certificate of incorporation or formation, certificate of limited partnership, regulations, bylaws, operating agreement, company agreement, partnership or limited partnership agreement, and all purposes hereunder pursuant similar documents related to the formation and governance of that Person, together with all amendments thereto. **Section 3.3(b)**.

"Early Opt-in Election Control" means the occurrence of: (1)(i) possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. For the

purposes of this definition, and without limiting the generality of the foregoing, any Person that owns directly or indirectly 51% or more of the Equity Interests having ordinary voting power for the election of the directors or other governing body of a Person (other than as a limited partner of such other Person) will be deemed to "control" such other Person. "Controlling" and "Controlled" have meanings correlative thereto.

"Current Ratio" means, as of any date of determination, by Administrative Agent or (ii) a notification the ratio of Consolidated Current Assets to Consolidated Current Liabilities.

"Daily Simple SOFR" means, for any Interest Period, the secured overnight financing rate published by the Required Lenders to Administrative Agent (with a copy to Borrower) that the Required Lenders have determined that Dollar- denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in Section 3.3(b) are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace LIBOR, and (2)(i) the election by Administrative Agent or (ii) the election by the Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by Administrative Agent of written notice of such election to Borrower and the Lenders or by the Required Lenders of written notice of such election to Administrative Agent.

"Federal Reserve Bank of New York's Website" means York (or a successor administrator of the secured overnight financing rate) on the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org> or (or any successor source, source for the secured overnight financing rate identified as such by the administrator of the secured overnight financing rate from time to time) for the day that is five (5) U.S. Government Securities Business Days prior to the first day of such Interest Period, as determined by Agent; provided, that if Agent decides at any time that such lookback convention is not administratively feasible for Agent, then Agent may, permanently or temporarily, implement another convention (which may use a lookback of different duration) in its reasonable discretion, without further notice to or consent from Borrower.

"Lease Operating Statement Debt" means, for any Person the sum of the following (without duplication): (a) all obligations of such Person for borrowed money or evidenced by bonds, debentures, notes or other similar instruments (including principal, interest, fees and charges); (b) all obligations of such Person (whether contingent or otherwise) in respect of bankers' acceptances, letters of credit, surety or other bonds and similar instruments; (c) all obligations of such Person to pay the deferred purchase price of Property or services (other than for borrowed money); (d) all obligations under leases which shall have been, or should have been, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable (whether contingent or otherwise); (e) all obligations of such Person under "synthetic lease" transactions or other off balance sheet financings; (f) all Debt (as described in the other clauses of this definition) of others secured by a report Lien on any asset of such Person, whether or not such Debt is assumed by such Person; (g) all Debt (as described in the other clauses of this definition) of others guaranteed by such Person or in which such Person otherwise assures a form creditor against loss (howsoever such assurance shall be made, including by means of obligations to pay for goods and services even if such goods or services are not actually taken, received or utilized by such Person, to the extent of the lesser of the amount of such Debt and the maximum stated amount of such guarantee or assurance against loss); (h) obligations of such Person with respect to Disqualified Capital Stock; (i) the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment; and (j) payments for obligations under Hedging Agreements; provided, however, that "Debt" does not include (i) the mark-to-market values for Hedging Agreements; provided, however, that the mark-to-market values for Hedging Agreements in accordance with ASC Topic 815 shall be excluded until such time as the gains or losses from the Hedge Agreements are actually realized or expire; (ii) obligations with respect to surety or performance bonds and similar instruments entered into in the ordinary course of business in connection with the operation of Oil and Gas Properties or with respect to appeal bonds, (iii) accounts payable and accrued expenses, liabilities or other obligations to pay the deferred purchase price of Property or services,

from time to time incurred in the ordinary course of business which are not aged greater than one hundred twenty (120) days or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP, or (iv) endorsements of negotiable instruments for collection. The Debt of any Person shall include all obligations of such Person of the character described above to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is not included as a liability of such Person under GAAP.

"Debt to EBITDAX Ratio" means, as of the last day of any fiscal quarter, the ratio of (i) the Funded Debt on such date to (ii) EBITDAX for the four fiscal quarter period ended on such date.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect.

"Default" means an Event of Default or an event which with notice, or lapse of time, or both, would become an Event of Default.

"Defaulting Lender" means, subject to **Section 12.07(b)**, any Lender that (a) has failed to (i) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies Agent and Borrower in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to Agent, Issuing Bank or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit) within two Business Days of the date when due, (b) has notified Borrower, Agent or Issuing Bank in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within three Business Days after written request by Agent or Borrower, to confirm in writing to Agent and Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this **clause (c)** upon receipt of such written confirmation by Agent and Borrower), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law or (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership of or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by Agent that a Lender is a Defaulting Lender under any one or more of **clauses (a) through (d)** above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to **Section 12.07(b)**) upon delivery of written notice of such determination to Borrower, Issuing Bank and each Lender.

"Deposit Account Control Agreement" means a deposit account control agreement to be executed by the applicable Loan Party, Agent and the depository institution, in form and substance reasonably satisfactory to **Administrative Agent** following notice from Agent during the continuance of an Event of Default, as it may be amended, supplemented or otherwise modified from time to time in accordance with this Agreement.

"Disqualified Capital Stock" means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event, matures or is mandatorily redeemable for any consideration other than other Equity Interests (which would not constitute Disqualified Capital Stock), pursuant to a sinking fund obligation or otherwise, or is convertible or exchangeable for Debt of the type described in clause (a) of the definition thereof or redeemable for any consideration other than other Equity Interests (which would not constitute Disqualified Capital Stock) at the option of the holder thereof, in whole or in part (but if in part only with respect to such amount that meets the criteria set forth in this definition), on or prior to the date that is one year after the earlier of (a) the Maturity Date and (b) the date on which there are no Loans, LC Exposure or other obligations hereunder outstanding and all of the Commitments are terminated.

"Dollars" and **"\$"** means lawful money of the United States of America.

"EBITDAX" means, for any period, the sum of Consolidated Net Income for such period *plus* (a) the following expenses or charges to the extent deducted from Consolidated Net Income in such period: (i) interest, (ii) taxes, (iii) depreciation, (iv) depletion, (v) amortization, (vi) exploration expenses, including plugging and abandonment expenses, (vii) oil and gas exploration costs expense, including intangible drilling costs and dry hole and abandonment expense, for such period, (viii) non-cash losses and charges for such period (ix) extraordinary or non-recurring losses for such period; and (x) the actual transaction costs, expenses, fees and charges (for avoidance of doubt, excluding acquisition consideration) incurred in connection with (A) the Transactions and (B) Material Acquisitions and Transfers permitted under **Section 9.12** or with the prior written consent of the Required Lenders, (xi) impairment expenses, (xii) losses from dispositions of Properties (other than Hydrocarbons produced in the ordinary course of business) and (xiii) all other non-cash charges, *minus* (b) to the extent included in Consolidated Net Income in such period, all gains from dispositions of Properties (other than Hydrocarbons produced in the ordinary course of business) and all non-cash income added to Consolidated Net Income in such period *provided that*, EBITDAX shall be subject to pro forma adjustments for acquisitions and Transfers permitted under **Section 9.12** or with the prior written consent of the Required Lenders assuming that such transactions had occurred on the first day of the applicable calculation period, which adjustments shall be made in a manner reasonably acceptable to Agent.

"Effective Date" means the date that all of the conditions precedent in **Section 6.01** are satisfied or waived.

"Eligible Assignee" means any Person that meets the requirements to be an assignee under **Section 12.06(b)(iii)**, (v) and (vi) (subject to such consents, if any, as may be required under **Section 12.06(b)(iii)**).

"Engineering Reports" has the meaning assigned such term in **Section 2.08**.

"Environmental Laws" means any and all Governmental Requirements pertaining to public health or the environment in effect in any and all jurisdictions in which Borrower or any Subsidiary is conducting or at any time has conducted business, or where any Property of Borrower or any Subsidiary is located, including, the Oil Pollution Act of 1990 ("**OPA**") Clean Air Act, as amended, the Comprehensive Environmental, Response, Compensation, and Liability Act of 1980 ("**CERCLA**"), as amended, the Federal Water Pollution Control Act, as amended, the Occupational Safety and Health Act of 1970, as amended, the Resource Conservation and Recovery Act of 1976 ("**RCRA**"), as amended, the Safe Drinking Water

Act, as amended, the Toxic Substances Control Act, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Hazardous Materials Transportation Act, as amended, and other environmental conservation or protection laws. The term "**oil**" has the meaning specified in OPA, the terms "**hazardous substance**" and "**release**" (or "**threatened release**") have the meanings specified in CERCLA, and the terms "**solid waste**" and "**disposal**" (or "**disposed**") have the meanings specified in RCRA; *provided, however*, that (i) in the event either OPA, CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and (ii) to the extent the laws of the state in which any Property of Borrower or any Subsidiary is located establish a meaning for "**oil**," "**hazardous substance**," "**release**," "**solid waste**" or "**disposal**" which is broader than that specified in either OPA, CERCLA or RCRA, such broader meaning shall apply.

"Equity Interests" means any and all shares, interests, participations or other equivalents (however designated) of capital stock or other equivalent ownership (or profit) interests in a Person, and any and all warrants, rights or options to purchase any of the foregoing, whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are authorized or otherwise existing on any date of determination.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time and any successor statute.

"ERISA Affiliate" means each trade or business (whether or not incorporated) which together with Borrower or any Subsidiary would be deemed to be a "*single employer*" within the meaning of **Section 4001(b)(1)** of ERISA or *subsections (b), (c), (m) or (o)* of **Section 414** of the Code.

"ERISA Event" means (i) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder, other than any such event for which the thirty (30) day notice requirement under ERISA has been waived in regulations issued by the PBGC, (ii) the withdrawal of Borrower, any Subsidiary or any ERISA Affiliate from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, (iii) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, (iv) the institution of proceedings to terminate a Plan by the PBGC or (v) any other event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"Excepted Liens" means:

(a) Liens for taxes, assessments or other governmental charges or levies not yet due or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP;

(b) Liens in connection with workmen's compensation, unemployment insurance or other social security, old age pension or public liability obligations not yet due or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP;

(c) operators', vendors', carriers', warehousemen's, repairmen's, mechanics', workmen's, materialmen's, construction or other like Liens arising in the ordinary course of business or incident to the exploration, development, operation and maintenance of Oil and Gas Properties or statutory landlord's liens, each of which is in respect of obligations that are not delinquent or which are being contested in good faith by appropriate proceedings and for which adequate reserves have been maintained in accordance with GAAP;

9

(d) Liens which arise in the ordinary course of business under operating agreements, joint venture agreements, oil and gas partnership agreements, oil and gas leases, farm-out agreements, joint development agreements, division orders, contracts for the sale, transportation or exchange of oil and natural gas, unitization and pooling declarations and agreements, area of mutual interest agreements, overriding royalty agreements, marketing agreements, processing agreements, net profits agreements, development agreements, gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or other geophysical permits or agreements, and other agreements which are usual and customary in the oil and gas business and are for claims which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP, provided that any such Lien referred to in this clause does not materially impair the use of the Property covered by such Lien for the purposes for which such Property is held by Borrower or any Subsidiary or materially impair the value of such Property subject thereto;

(e) encumbrances (other than to secure the payment of borrowed money or the deferred purchase price of Property or services), easements, restrictions, servitudes, permits, conditions, covenants, exceptions, reservations, zoning and land use requirements in any Property of Borrower or any Subsidiary for the purpose of roads, pipelines, transmission lines, transportation lines, distribution lines for the removal of gas, oil, coal or other minerals or timber, and other like purposes, or for the joint or common use of real estate, rights of way, facilities and equipment, and defects, irregularities, zoning restrictions and deficiencies in title of any Property which in the aggregate do not materially impair the use of such Property for the purposes of which such Property are held by Borrower or any Subsidiary or materially impair the value of such Property subject thereto;

(f) deposits of or Liens on cash or securities pledged to secure (either directly, or indirectly by securing letters of credit that in turn secure) the performance of tenders, surety and appeal bonds, government contracts, performance and return of money bonds, bids, trade contracts, leases, statutory obligations, regulatory obligations, obligations in respect of workers' compensation, unemployment insurance or other forms of governmental benefits or insurance and other obligations of a like nature incurred in the ordinary course of business;

(g) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies arising in the ordinary course of business and burdening only deposit accounts or other funds maintained with a creditor depository institution, provided that no such deposit account is a dedicated cash collateral account or is subject to restrictions against access by

the depositor in excess of those set forth by regulations promulgated by the Board and no such deposit account is intended by any Loan Party to provide collateral to the depository institution for Debt owed to it;

(h) Liens in favor of depository banks arising under documentation governing deposit accounts which Liens secure the payment of returned items, settlement item amounts, customary bank fees for maintaining deposit accounts, and similar items and fees;

(i) title and ownership interests of lessors (including sub-lessors) of Property leased by such lessors to any Loan Party, Liens and encumbrances encumbering such lessors' titles and interests in such Property and to which the applicable Loan Party's leasehold interests may be subject or subordinate, in each case whether or not evidenced by Uniform Commercial Code financing statement filings or other documents of record, *provided* that such Liens do not secure Debt of any Loan Party and do not encumber Property of any Loan Party other than the Property that is the subject of such leases and items located thereon; *provided further* that any such Lien referred to in this clause does not materially impair the use of the Property covered by such Lien for the purposes for which such Property is held by the applicable Loan Party or materially impair the value of such Property subject thereto;

10

(j) judgment and attachment Liens not giving rise to an Event of Default under **Section 10.01(i)**; *provided* that any appropriate legal proceedings which may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceeding may be initiated shall not have expired and no action to enforce such Lien has been commenced;

(k) Liens of licensors of software and other intangible Property licensed by such licensors to any Loan Party, including restrictions and prohibitions on encumbrances and transferability with respect to such Property and the applicable Loan Party's interests therein imposed by such licenses, and Liens encumbering such licensors' titles and interests in such Property and to which the applicable Loan Party's license interests may be subject or subordinate, in each case, whether or not evidenced by Uniform Commercial Code financing statement filings or other documents of record, *provided* that such Liens do not encumber Property of any Loan Party other than the software and other intangible Property that is the subject of such licenses; and

(l) Liens permitted by the Security Documents; *provided*, however, no intention to subordinate the first priority Lien granted in favor of Agent and the Lenders is to be hereby implied or expressed by the permitted existence of any of the foregoing Excepted Liens

"Excluded Property" means any (i) Oil and Gas Property or other real property of the Loan Parties that is not a Borrowing Base Property, (ii) motor vehicle subject to a certificate of title statute, (iii) contract, license, agreement, instrument or other document (or any item of property subject thereto) to the extent that the grant of a security interest therein is prohibited thereby or constitutes a default thereunder, except to the extent that such prohibition or default is ineffective under *Sections 9-406, 9-407, 9-408 or 9-409* of the Uniform Commercial Code as adopted in the State of Texas, (iv) any Excluded Account, (v) any equity interest in a Subsidiary, (vi) other Property specified as "Excluded Property" in any Security Document, and (vii) other Property that Agent determines to be immaterial for a credit based on oil and gas reserves.

"Excluded Swap Obligation" means, (a) with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the guarantee of such Guarantor of, or the grant by such Guarantor of a security interest to secure, as applicable, such Swap Obligation (or any guarantee thereof) is or becomes illegal under the Commodity Exchange Act and (b) with respect to Borrower, any Swap Obligation of another Loan Party if, and to the extent that, all or a portion of the joint and several liability of such Borrower with respect to, or the grant of such Borrower of a security interest to secure, as applicable, such Swap Obligation is or becomes illegal under the Commodity Exchange Act or any rule, regulation, or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof), by virtue of such Guarantor's (in the case of **(a)**) or Borrower's (in the case of **(b)**) failure to constitute an *"eligible contract participant,"* as defined in the Commodity Exchange Act and the regulations thereunder, at the time the guarantee of such Guarantor, joint and several liability of such Borrower, or grant of such security interest by such Guarantor or Borrower, as applicable, becomes or would become effective with respect to such Swap Obligation. If a Swap Obligation arises under a Master Agreement governing more than one Swap Obligation, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to Swap Obligations for which such guarantee or security interest or joint and several liability, as applicable, is or becomes illegal.

"Excluded Taxes" means any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an

applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Loan or Commitment (other than pursuant to an assignment request by Borrower under **Section 5.06**) or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to **Section 4.06**, amounts with respect to such Taxes were payable either to such Lender's assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its lending office, (c) Taxes attributable to such Recipient's failure to comply with **Section 4.06(g)** and (d) any U.S. federal withholding Taxes imposed under FATCA.

"FATCA" means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code.

"Federal Funds Effective Rate" means, for any day, the rate per annum calculated by the Federal Reserve Bank of New York (or a successor administrator of the effective federal funds rate) based on federal funds transactions by depository institutions and published by the Federal Reserve Bank of New York or any successor publisher of the effective federal funds rate, with the conventions for this rate (which may include a lookback) being established by Agent in its reasonable discretion

"Fitch" means Fitch Ratings, Inc. and any successor thereto.

"Flood Insurance Regulations" shall mean (i) the National Flood Insurance Act of 1968 as now or hereafter in effect or any successor statute thereto, (ii) the Flood Disaster Protection Act of 1973 as now or hereafter in effect or any successor statute thereto, (iii) the National Flood Insurance Reform Act of 1994 (amending 42 USC 4001, *et seq.*), as the same may be amended or recodified from time to time, and (iv) the Flood Insurance Reform Act of 2004 and any regulations promulgated thereunder.

"Fronting Exposure" means, at any time there is a Defaulting Lender, such Defaulting Lender's Percentage Share of the outstanding LC Exposure with respect to Letters of Credit issued by Issuing Bank, other than LC Exposure as to which such Defaulting Lender's participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.

"Floor" means, for any date and any Benchmark, the benchmark rate floor of 4.15% per annum. **"Fund"** means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

"Funded Debt" means, at any date, the consolidated principal amount of all Debt (without duplication) of the Loan Parties described in clauses (a), (b), (c), (d) or (e) of the definition herein of **"Debt"** (in each case, other than any such Debt disclosed on **Schedule 9.01**).

"GAAP" means generally accepted accounting principles in the United States of America in effect from time to time.

"Governmental Authority" shall include the country, the state, county, city and political subdivisions in which any Person or such Person's Property is located or which exercises valid jurisdiction over any such Person or such Person's Property, and any court, agency, department, commission, board, bureau or instrumentality of any of them including monetary authorities which exercises valid jurisdiction over any such Person or such Person's Property (including any supra-national bodies such as the European Union or the European Central Bank). Unless otherwise specified, all references to Governmental Authority

herein means a Governmental Authority having jurisdiction over, where applicable, Borrower, its Subsidiaries or any of their Property or Agent, any Lender or any Applicable Lending Office.

"Governmental Requirement" means any law, statute, code, ordinance, order, determination, rule, regulation, treaty, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other directive or requirement (whether or not having the force of law), including Regulation D and Environmental Laws, energy regulations and occupational, safety and health standards or controls, of any Governmental Authority.

"Guarantee Obligation" means, as to any Person (the **"guaranteeing person"**), any obligation, including a reimbursement, counterindemnity or similar obligation, of the guaranteeing Person that guarantees or in effect guarantees, or which is given to induce the creation of a separate obligation by another Person (including any bank under any letter of credit) that guarantees or in effect guarantees, any Debt, leases, dividends or other obligations (the **"primary obligations"**) of any other third Person (the **"primary obligor"**) in any manner, whether directly or indirectly, including any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business.

"Guarantor" means the Parent and each current and future Subsidiary of Borrower that has executed a Guaranty Agreement and any other Person that becomes a guarantor of all or any portion of the Obligations pursuant to **Section 8.09(d)**.

"Guaranty Agreement" means the Guaranty Agreement executed by each Guarantor in form and substance satisfactory to Agent guarantying, unconditionally, payment of the Obligations, as the same may be amended, modified or supplemented from time to time.

"Hedge Termination Value" means, in respect of any one or more Hedging Agreements, after taking into the account the effect of any legally enforceable netting agreement relating to such Hedging Agreements, (a) for any date on or after the date such Hedging Agreements have been closed out and termination value(s) determined in accordance therewith, such termination value(s) and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) of such Hedging Agreements, as determined by the counterparties to such Hedging Agreements.

"Hedging Agreements" means any commodity, interest rate or currency swap, cap, floor, collar, forward agreement or other exchange or protection agreements or any option with respect to any such transaction, and any and all Master Agreements, trades, confirmations, and transactions entered into pursuant thereto; provided that (a) no contract for the sale of Hydrocarbons for deferred shipment or delivery that is intended to be settled by physical delivery shall be a Hedging Agreement so long as such contract does not provide for a fixed price before such shipment or delivery for such Hydrocarbons (other than, for the avoidance of doubt, any such contract that provides for "first of month" pricing or other one month pricing for deliveries of Hydrocarbons for the immediately following calendar month), and (b) for the sole purpose of **Section 9.18**, the term **"Hedging Agreements"** shall be deemed to exclude all purchased put options or floors for Hydrocarbons that are not related to corresponding calls, collars or swaps and with

respect to which none of the Loan Parties has any payment obligation other than premiums and charges the total amount of which are fixed and known at the time such transaction is entered into.

"Highest Lawful Rate" means, with respect to each Lender, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the Notes or on any other Obligations under laws applicable to such Lender which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

"Hydrocarbon Interests" means all rights, titles, interests and estates now or hereafter acquired in and to oil and gas leases, oil, gas and mineral leases, or other liquid or gaseous hydrocarbon leases, mineral fee interests, overriding royalty and royalty interests, net profit interests and production payment interests, including any reserved or residual interests of whatever nature.

"Hydrocarbons" means oil, gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all products refined or separated therefrom, produced or to be produced in conjunction therewith from a well bore.

"Indemnified Parties" has the meaning assigned such term in **Section 12.03(a)(ii)**.

"Indemnified Taxes" means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and
(b) to the extent not otherwise described in (a), Other Taxes.

"Indemnity Matters" means any and all actions, suits, proceedings (including any investigations, litigation or inquiries), claims, demands and causes of action made or threatened against a Person and, in connection therewith, all losses, liabilities, damages (excluding, for the avoidance of doubt, special, indirect, or consequential damages) or reasonable costs and expenses of any kind or nature whatsoever incurred by such Person whether caused by the sole or concurrent negligence of such Person seeking indemnification.

"Initial Funding" means the funding of the initial Loans or issuance of the initial Letters of Credit occurring on or after the Effective Date and upon satisfaction of the conditions set forth in **Section 6.01** and **Section 6.02**.

"Initial Reserve Report" means the Reserve Report prepared by Borrower covering each DeGolyer and MacNaughton with respect to the Oil and Gas Properties of the Proved Loan Parties as of January 1, 2023, as provided by Borrower to Agent and the Lenders and utilized by Agent and the Lenders in determining the initial Borrowing Base hereunder.

"Interest Period" means, as to any Daily Simple SOFR Loan, the period commencing on the date of such Loan and ending on the numerically corresponding day in the calendar quarter that is one month thereafter. Accrued interest shall be payable quarterly in arrears on the last day of each June, September, December and March of each calendar year, commencing June 30, 2023 (in each case, subject to the availability thereof), as specified in the applicable Borrowing Request provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar quarter, in which case such Interest Period shall end on the next preceding Business Day, (b) any Interest Period that commences on the last Business Day of a calendar quarter (or on a day for which there is no numerically corresponding day in the last calendar quarter of such Interest Period) shall end on the last Business Day of

the last calendar quarter of such Interest Period, and (c) no Interest Period shall extend beyond the Maturity Date.

"Investment Account" means any and all investment accounts, commodity accounts, and securities accounts now owned or hereafter acquired or opened by a Loan Party, together with all securities, securities entitlements, monies, instruments, certificates, checks, drafts, wire transfer receipts and other property deposited therein and all balances therein.

"Investment Account Control Agreement" means a control agreement, in form and substance satisfactory to Agent, which grants Agent "control" as defined in the Uniform Commercial Code in effect in the applicable jurisdiction over any Investment Account maintained by a Loan Party, in each case, among Agent, such Loan Party and the applicable financial institution at which the Investment Account is maintained.

"IRS" means the United States Internal Revenue Service. **"LC Commitment"** at any time means \$1,000,000.00.

"LC Exposure" at any time means the aggregate face amount of all undrawn and uncanceled Letters of Credit plus the aggregate of all amounts drawn under all Letters of Credit and not yet reimbursed.

"Letter of Credit Agreements" means the written agreements with Issuing Bank, as issuing lender for any Letter of Credit, executed in connection with the issuance by Issuing Bank of the Letters of Credit, such agreements to be on Issuing Bank's customary form for letters of credit of comparable amount and purpose as from time to time in effect or as otherwise agreed to by Borrower and Issuing Bank.

"Letters of Credit" means the letters of credit issued pursuant to **Section 2.01(b)** and all reimbursement obligations pertaining to any such letters of credit, and **"Letter of Credit"** means any one of the Letters of Credit and the reimbursement obligations pertaining thereto.

"Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and whether such obligation or claim is fixed or contingent, and including but not limited to (i) the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes or (ii) production payments and the like payable out of Oil and Gas Properties. The term shall include reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting Property. For the purposes of this Agreement, Borrower or any Subsidiary shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement, or leases under a financing lease or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person in a transaction intended to create a financing.

"Loan Documents" means this Agreement, the Notes, the Letters of Credit, the Letter of Credit Agreements, each Security Document, each Borrowing Request and each Guaranty Agreement together, in each case, with all exhibits, schedules and attachments thereto, and all other agreements, documents or instruments from time to time executed or delivered in connection with or pursuant to any of the foregoing, and any amendments or restatements with respect to any of the foregoing.

"Loan Parties" means, collectively, Borrower and the Guarantors, and **"Loan Party"** means any one of the foregoing.

15

"Loans" means the loans as provided for by **Sections 2.01(a)**.

"Master Agreement" means any form of master agreement published by the International Swaps and Derivatives Association, Inc., or any other master derivatives agreement, and any schedules to any of the foregoing.

"Material Acquisition" means any acquisition of Property or series of related acquisitions of Property that involves the payment of consideration by Borrower and its Subsidiaries in excess of a dollar amount equal to ten percent (10%) of the then effective Borrowing Base.

"Material Adverse Effect" means a material and adverse effect upon, or material adverse change in, (i) the business, assets, liabilities or financial condition of Parent, (ii) the ability of Parent to duly and punctually pay and perform their obligations under the Loan Documents, (iii) the validity or enforceability of the Loan Documents, or (iv) the ability of Agent or any of the Lenders, to the extent permitted, to enforce its legal remedies pursuant to the Loan Documents.

"Material Debt" means Debt (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Loan Parties in an aggregate principal amount exceeding the Threshold Amount. For purposes of determining Material Debt, the "principal amount" of the obligations of any Loan Party in respect of any Hedging Agreement at any time shall be the Hedge Termination Value of such Hedging Agreement.

"Maturity Date" means the earlier to occur of (i) June 28, 2027, or (ii) the date that the Commitments are sooner terminated pursuant to **Section 2.03(b)** or **Section 10.02**.

"Maximum Credit Amount" means, as to each Lender, the amount set forth opposite such Lender's name on **Annex I** under the caption **"Maximum Credit Amounts"** (as the same may be reduced pursuant to **Section 2.03(b)** pro rata to each Lender based on its Percentage Share), as modified from time to time to reflect any assignments permitted by **Section 12.06(b)**.

"Minimum Collateral Amount" means, at any time, (i) with respect to Cash Collateral consisting of cash or deposit account balances, an amount equal to one hundred two percent (102%) of the Fronting Exposure of Issuing Bank with respect to Letters of Credit issued and outstanding at such time and (ii) otherwise, an amount determined by Agent and Issuing Bank in their sole discretion. **"Moody's"** means Moody's Investors Service, Inc. and any successor thereto.

"Mortgaged Property" means the Property owned by Borrower and its Subsidiaries which is subject to the Liens existing and to exist under the terms of the Security Documents granting Liens in Oil and Gas Properties.

"Multiemployer Plan" means a Plan defined as such in **Section 3(37)** or **4001(a)(3)** of ERISA. **"Non-Consenting Lender"** means any Lender that does not approve (a) any consent, waiver or amendment that (i) requires the approval of all or all affected Lenders in accordance with the terms of **Section 12.04** (other than any proposed Borrowing Base that would increase the then-current Borrowing Base) and (ii) has been approved by the Required Lenders or (b) any proposed Borrowing Base that would increase the then-current Borrowing Base that has been approved by the Supermajority Lenders.

"Non-Defaulting Lender" means, at any time, each Lender that is not a Defaulting Lender at such time.

16

"Notes" means the Notes provided for by **Section 2.06**, together with any and all renewals, extensions for any period, increases, rearrangements, substitutions or modifications thereof.

"Obligations" means all indebtedness, obligations and liabilities of Borrower or any Subsidiary to (a) any Lender, Agent, Issuing Bank, any Approved Counterparty, or any Banking Services Provider, individually or collectively, existing on the date of this Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, in each case arising or incurred under this Agreement, any of the other Loan Documents, any Hedging Agreement or in respect of any of the Loans made, reimbursement obligations incurred, Banking Services Obligations, or any of the Notes, Letters of Credit or other instruments at any time evidencing any of the foregoing, including interest accruing subsequent to the filing of a petition or other action concerning bankruptcy or other similar proceedings, and all renewals, extensions, refinancings and replacements for the foregoing; *provided* that if any Person is an Approved Counterparty with respect to one or more Hedging Agreements with a Loan Party and ceases to be a Lender or an Affiliate of a Lender, the Obligations shall only include obligations in respect of such Hedging Agreements to the extent arising from transactions entered into during or prior to the time such Person was a Lender or Affiliate of a Lender and shall not include any obligations arising from any transaction entered into after such Person ceases to be a Lender or Affiliate of a Lender, and *provided further* that the "Obligations" of a Loan Party shall exclude any Excluded Swap Obligations with respect to such Loan Party.

"OFAC" means The Office of Foreign Assets Control of the U.S. Department of the Treasury. **"Oil and Gas Properties"** means Hydrocarbon Interests; the Properties now or hereafter pooled or unitized with Hydrocarbon Interests; all presently existing or future unitization, pooling agreements and declarations of pooled units and the units created thereby (including all units created under orders, regulations and rules of any Governmental Authority) which may affect all or any portion of the Hydrocarbon Interests; all operating agreements, contracts and

other agreements which relate to any of the Hydrocarbon Interests or the production, sale, purchase, exchange or processing of Hydrocarbons from or attributable to such Hydrocarbon Interests; all Hydrocarbons in and under and which may be produced and saved or attributable to the Hydrocarbon Interests, including all oil in tanks, and all rents, issues, profits, proceeds, products, revenues and other incomes from or attributable to the Hydrocarbon Interests; all tenements, hereditaments, appurtenances and Properties in any manner appertaining, belonging, affixed or incidental to the Hydrocarbon Interests; all Property, real or personal, now owned or hereinafter acquired and situated upon, used, held for use in connection with the operating, working or development of any of such Hydrocarbon Interests or Property (excluding drilling rigs, automotive equipment, rental equipment, or other personal property which may be on such premises for the purpose of drilling a well or for other similar temporary uses) and including any and all oil wells, gas wells, injection wells or other wells, buildings, structures, fuel separators, liquid extraction plants, plant compressors, pumps, pumping units, field gathering systems, tanks and tank batteries, fixtures, valves, fittings, machinery and parts, engines, boilers, meters, apparatus, equipment, appliances, tools, implements, cables, wires, towers, casing, tubing and rods, surface leases, rights-of-way, easements and servitudes together with all additions, substitutions, replacements, accessions and attachments to any and all of the foregoing. Unless otherwise indicated herein, each reference to the term **"Oil and Gas Properties"** means the Oil and Gas Properties of Borrower **and** and/or its **Subsidiaries included in the most recent redetermination of the Borrowing Base and detailing on a monthly basis the Hydrocarbon production volumes, revenues, associated lease operating expenses, Taxes and other expenses for such Proved Oil and Gas Properties in form and substance reasonably satisfactory to Administrative Agent.** Subsidiaries.

"Relevant Governmental Body Other Connection Taxes" means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

17

"Other Taxes" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to **Section 5.06**).

"Parent" means Epsilon Energy Ltd, an Alberta, Canada corporation. **"Participant"** has the meaning assigned to such term in **clause (d)** of **Section 12.06**. **"Participant Register"** has the meaning specified in **clause (d)** of **Section 12.06**.

"Patriot Act" means the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)).

"Payment Recipient" has the meaning assigned to it in **Section 11.14(a)**.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions.

"PDP Reserves" means Proven Reserves which are categorized as both "Developed" and "Producing" in the definitions promulgated by the Society of Petroleum Evaluation Engineers and the World Petroleum Congress as in effect at the time in question.

"Percentage Share" means the percentage of the Aggregate Commitments to be provided by a Lender under this Agreement as indicated on Annex I hereto, as modified from time to time to reflect any assignments permitted by **Section 12.06(b)**.

"Permitted Liens" means Liens permitted by **Section 9.02** of this Agreement.

"Permitted Tax Distributions" means, with respect to Borrower so long as it is taxable as a partnership or classified as a disregarded entity for United States federal income tax purposes, tax distributions to Parent in an aggregate amount that does not exceed (a) the sum of the highest marginal United States federal income tax rates applicable to individuals on ordinary income, multiplied by (b) Parent's federal taxable income attributable to its Equity Interests in Borrower.

"Person" means any individual, corporation, company, voluntary association, partnership, joint venture, trust, unincorporated organization or government or any agency, instrumentality or political subdivision thereof, or any other form of entity.

"Plan" means any employee pension benefit plan, as defined in Section 3(2) of ERISA, which (i) is currently or hereafter sponsored, maintained or contributed to by Borrower, any Subsidiary or an ERISA Affiliate, and (ii) is subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA but excluding any Multiemployer Plan.

"Post Default Rate" means, in respect of any principal of any Loan or any other amount payable by Borrower under this Agreement or any other Loan Document, a rate per annum during the period commencing on the date of occurrence of an Event of Default until such amount is paid in full or all Events of Default are cured or waived equal to two percent (2%) per annum above the Benchmark then in effect, in effect from time to time plus the Applicable Margin, but in no event to exceed the Highest Lawful Rate.

18

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Proven Reserves" means, at any particular time, collectively, oil and gas reserves that are classified as both "Proved Reserves" and one of the following: (a) "Developed Producing Reserves", (b) "Developed Non-Producing Reserves" or (c) "Undeveloped Reserves", in each case, in the definitions promulgated by the Society of Petroleum Evaluation Engineers as in effect at the time in question.

"Qualified ECP Guarantor" means, in respect of any Swap Obligation, each Loan Party that has total assets exceeding \$10,000,000 at the time the relevant guaranty of such Loan Party, or the grant by such party of a security interest or lien to secure, or the provision of other support of, such Swap Obligation becomes effective with respect to such Swap Obligation or such other Person as constitutes an "eligible contract participant" under the Commodity Exchange Act and can cause another person to qualify as an "eligible contract participant" at such time by entering into a keepwell under Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

"Recipient" means (a) Agent, (b) any Lender and (c) Issuing Bank, as applicable.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System (or any successor), as the same may be amended or supplemented from time to time.

"Regulatory Change" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Governmental Requirement, (b) any change in any Governmental Requirement or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Regulatory Change," regardless of the date enacted, adopted or issued.

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person's Affiliates.

"Relevant Governmental Body" means the Board and/ of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve Board and/ System or the Federal Reserve Bank of New York, or any successor thereto.

"Required Lenders" means, at any time while no Loans are outstanding, Lenders having greater than fifty percent (50%) of the Aggregate Commitments and, at any time while Loans are outstanding, Lenders holding greater than fifty percent (50%) of the outstanding

aggregate principal amount of the Loans (without regard to any sale by a Lender of a participation in any Loan under **Section 12.06(c)**); **SOFR** provided that, the portion of the unpaid principal amount of the outstanding Loans held or deemed held by and the Commitment of, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders unless all Lenders are Defaulting Lenders; provided further that, at any time there are only one or two Lenders under this Agreement, **"Required Lenders"** means all Lenders (subject to the foregoing proviso regarding Defaulting Lenders).

"Reserve Report" means a report, in form and substance reasonably satisfactory to Agent, setting forth, as of each October 1 and April 1 (or such other date in the event of an unscheduled redetermination); (i) the oil and gas reserves attributable to Borrower's Oil and Gas Properties together with a projection of the rate of production and future net income, taxes, operating expenses and capital expenditures with respect thereto as of such date and (ii) such other information as Agent may reasonably request.

"Responsible Officer" means, as to any Person, the Chief Executive Officer, the President, the Chief Financial Officer, or any Vice President of such Person (or its general partner or managing member, as applicable), or any other authorized representative designated in resolutions adopted by the board of directors or other governing body of such Person (or its general partner or managing member, as applicable) and, with respect to financial matters, the term **"Responsible Officer"** shall include the chief financial officer, principal accounting officer or treasurer of such Person (or its general partner or managing member, as applicable), or any other authorized representative designated in resolutions adopted by the board of directors or other governing body of such Person (or its general partner or managing member, as applicable). Unless otherwise specified, all references to a Responsible Officer herein means a Responsible Officer of Borrower.

"S&P" means S&P Global Ratings, a division of S&P Global Inc. and any successor thereto. **"Sanctions"** means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government (including those administered by OFAC), the European Union, Her Majesty's Treasury, or other relevant sanctions authority.

"Sanctioned Country" means a country subject to a sanctions program identified on the list maintained by OFAC and available at <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>, or as otherwise published from time to time, or otherwise subject to any Sanctions.

"Sanctioned Person" means (a) a Person named on the list of "Specially Designated Nationals and Blocked Persons" maintained by OFAC available at <http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx>, or as otherwise published from time to time, (b) a Person named on the lists maintained by the United Nations Security Council available at http://www.un.org/sc/committees/list_compend.shtml, or as otherwise published from time to time, (c) a Person named on the lists maintained by the European Union available at http://eeas.europa.eu/cfsp/sanctions/consol-list_en.htm, or as otherwise published from time to time, (d) a Person named on the lists maintained by Her Majesty's Treasury available at http://www.hm-treasury.gov.uk/fin_sanctions_index.htm, or as otherwise published from time to time, or (e) (i) an agency of the government of a Sanctioned Country, (ii) any Person operating in, organized in, or controlled by, a Sanctioned Country, (iii) a person resident in a Sanctioned Country, or (iv) any Person owned or Controlled by any such Person or Persons described in any of the clauses above in this definition.

"Scheduled Redetermination Dates" means the semi-annual dates on which the Borrowing Base will be determined as set forth in **Section 2.08(d)** hereof, being April 1 and October 1 during the term of the Loan, commencing October 1, 2023.

"Security Documents" means the Deposit Account Control Agreements, Investment Account Control Agreements, pledge agreements, security agreements, mortgages, the agreements or instruments, and any and all other agreements or instruments now or hereafter executed and delivered by Borrower or any other Person (other than participation or similar agreements between any Lender and any other lender or creditor with respect to any day Obligations pursuant to this Agreement) in connection with, or as security for or guarantee of the payment or performance of, the Obligations, the Notes, this Agreement, or

reimbursement obligations under the Letters of Credit, as such agreements or instruments may be amended, supplemented, modified or restated from time to time.

"Security Termination" has the meaning assigned to such term in **Section 11.09(b)(x)**.

"SOFR" means a rate equal to the secured overnight financing rate published for such day as administered by the SOFR Administrator.

"SOFR Administrator" means the Federal Reserve Bank of New York as the (or a successor administrator of the benchmark (or a successor administrator) on the Federal Reserve Bank of New York's Website, secured overnight financing rate).

"SOFR Loan" means a Loan that bears interest at a rate based on Daily Simple SOFR, plus the Applicable Margin.

"Solvent" means, (a) the fair value of the Property of Parent, at a fair valuation and taken as a whole, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the Property of Parent, taken as a whole, will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) Parent will be able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) Parent will not have unreasonably small capital with which to conduct the business in which they are engaged as such business is now conducted and is proposed to be conducted following the Effective Date.

"Subsidiary" means, with respect to any Person, a Person of which at least a majority of the outstanding Equity Interests having by the terms thereof ordinary voting power to elect a majority of the board of directors, manager or other governing body of such Person or, in the case of a partnership, constituting a majority of the outstanding voting general partnership interests of such Person (in each case irrespective of whether or not at the time Equity Interests of any other class or classes of such Person shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the parent or one or more Subsidiaries of the parent or by the parent and one or more of the Subsidiaries of the parent.

"Supermajority Lenders" means, at any time while no Loans are outstanding, Lenders having at least sixty-six and two-thirds percent (66-2/3%) of the Aggregate Commitments and, at any time while Loans are outstanding, Lenders holding at least sixty-six and two-thirds percent (66-2/3%) of the outstanding aggregate principal amount of the Loans (without regard to any sale by a Lender of a participation in any Loan under **Section 12.06(c)**); provided that, the portion of the unpaid principal amount of the outstanding Loans held or deemed held by and the Commitment of, any Defaulting Lender shall be excluded for purposes of making a determination of Supermajority Lenders unless all Lenders are Defaulting Lenders; provided further that, at any time there are only one or two Lenders under this Agreement, **"Supermajority Lenders"** means all Lenders (subject to the foregoing proviso regarding Defaulting Lenders).

"Swap" means any "swap" within the meaning of **Section 1a(47)** of the Commodity Exchange Act. **"Swap Obligation"** means, with respect to any Person, any and all obligations of such Person, whether absolute or contingent and however and whenever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any Swap, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any Swap transaction.

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Term SOFR Reference Rate" means the forward-looking term rate based on **SOFR SOFR**.

"Threshold Amount" means the greater of (a) \$3,000,000 or (b) ten per cent (10%) of the Borrowing Base then in effect.

"Transactions" means, collectively, the execution, delivery and performance by each Loan Party of each Loan Document to which it is a party and the initial borrowing under this Agreement and the payment of fees, commissions and expenses in connection with each of the foregoing.

"Transfer" means any sale, assignment, farm-out, conveyance or other transfer of any Oil and Gas Property, or any interest in any Oil and Gas Property (including any working interest, overriding royalty interest, production payments, net profits interest, royalty interest, or mineral fee interest) of Borrower or any Subsidiary, except for (i) transfers among Borrower and the Subsidiaries, (ii) the sale of Hydrocarbons in the ordinary course of business, (iii) farmouts and acreage swaps of undeveloped acreage and/or depths and transfers or assignments in connection with such farmouts and acreage swaps; *provided* that for purposes of clarity, any farmout or acreage swap of proved, undeveloped acreage and/or depths shall, solely to the extent of such proved, undeveloped acreage and/or depths, constitute a "Transfer" that is subject to **Section 9.13**, (iv) the sale or transfer of equipment that is (A) obsolete, worn out, depleted or uneconomic, (B) no longer necessary for the business of Borrower or such Subsidiary or (C) contemporaneously replaced by equipment of at least comparable value and use, and (v) the sale or transfer of Oil and Gas Properties that are not Borrowing Base Properties, and sales or transfers of all (but not less than all) of the Equity Interests in any Subsidiary that does not own any Borrowing Base Property.

"Triggering Event" means the novation or assignment (unless novated or assigned to an Approved Counterparty), unwinding or termination (unless replaced with positions or contracts no less advantageous to Borrower or the Subsidiary party thereto), or amendment (if such amendment is materially adverse to Borrower or such Subsidiary party thereto) of a hedge position or Hedging Agreement considered by Agent in determining the then effective Borrowing Base, which, in either such case, after giving effect to such event, results in the aggregate amount of all such events (the value of such hedge position or Hedging Agreement subject to any such event, to be reasonably determined by Agent) since the most recent redetermination of the Borrowing Base exceeding five per cent (5%) of the Borrowing Base then in effect.

"Unscheduled Redetermination Date" means the date of a redetermination of the Borrowing Base made at any time other than on the Scheduled Redetermination Dates made (i) at the request of Borrower (only once between Scheduled Redetermination Dates) or (b) at the request of Bank (only once between Scheduled Redetermination Dates).

"U.S. Government Securities Business Day" means any day except for (i) a Saturday, (ii) a Sunday or (iii) a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

"U.S. Person" means any Person that is a "United States Person" as defined in Section 7701(a)(30) of the Code.

"U.S. Tax Compliance Certificate" has been selected or recommended by the **Relevant Governmental Body**, meaning assigned to such term in **Section 4.06(g)**.

Seventh Amendment to Credit Agreement

Page 422

"Unadjusted Benchmark Replacement Withholding Agent" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment, any Loan Party and Agent.

(c) **Section 3.31.03 Accounting Terms and Determinations.** Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished to Agent or the Lenders hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent with the audited financial statements of Borrower referred to in **Section 7.02** (except for changes concurred with by Borrower's independent public accountants); *provided* that, for purposes of covenant compliance hereunder, all leases by Borrower and

its Subsidiaries shall continue to be accounted for as operating leases or capital leases in accordance with generally accepted accounting principles as in effect at the date of this Agreement without regard to FASB ASC 842.

Section 1.04 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the **Credit** terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement **is hereby amended and restated** in its entirety and not to **read** any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as **follows**: amended, modified or supplemented from time to time, and (f) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section

3.3 1.05 Inability to Determine Rates Divisions.

(a) Subject to **clause (b)** below, if (i) Administrative Agent or For all purposes under the **Required Lenders** determine that for any reason **Loan Documents**, in connection with any **request for division or plan of division** under Delaware law (or any comparable event under a **LIBOR Portion** different jurisdiction's laws): (a) if any asset, right, obligation or a conversion to or continuation thereof that (A) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such **LIBOR Portion**, (B) adequate and reasonable means do not exist for determining LIBOR for any requested Interest Period with respect to a proposed **LIBOR Portion** or in connection with an existing or proposed **Base Rate Portion**, or (C) LIBOR for any requested Interest Period with respect to a proposed **LIBOR Portion** does not adequately and fairly reflect the cost to such Lenders of funding such **LIBOR Portion**, or (ii) by reason **liability** of any **Change in Law** any Lender would become subject to restrictions on **Person becomes** the **amount asset, right, obligation or liability** of a category of liabilities or assets which **different Person**, then it may hold and notifies Administrative Agent of same. Administrative Agent will promptly so notify Borrower and each Lender. Thereafter, (x) the obligation of Lenders to make or maintain **LIBOR Portions** shall be suspended, and (y) in the event of a determination described in the preceding sentence with respect to the **LIBOR component** of the **Base Rate**, the utilization of the **LIBOR component** in determining the **Base Rate** shall be suspended, in each case until Administrative Agent (upon the instruction of the **Required Lenders**) revokes such notice. Upon receipt of such notice, Borrower may revoke any pending request for a **Borrowing of, conversion to or continuation of LIBOR Portion or, failing that, will be deemed to have converted been transferred from the original Person to the subsequent Person**, and (b) if any new Person comes into existence, such new Person shall be deemed to have been organized on the first date of its existence by the holders of its **Equity Interests** at such time.

Section 1.06 Rates. Agent does not warrant or accept responsibility for, and shall not have any liability with respect to (a) the continuation of, administration of, submission of, calculation of or any other matter related to the **Term SOFR Reference Rate** or **Daily Simple SOFR**, or any component definition thereof or rates referred to in the definition thereof, or any alternative, successor or replacement rate thereto (including any **Benchmark Replacement**), including whether the composition or characteristics of any such alternative, successor or replacement rate (including any **Benchmark Replacement**) will be similar to, or produce the same value or economic equivalence of, or have the same volume or liquidity as, the **Term SOFR Reference Rate**, **Daily Simple SOFR** or any other **Benchmark** prior to its discontinuance or unavailability, or (b) the effect, implementation or composition of any **Conforming Changes**. Agent and its affiliates or other related entities may engage in transactions that affect the calculation of the **Term SOFR Reference Rate**, **Daily Simple SOFR**, any alternative, successor or replacement rate (including any **Benchmark Replacement**) or any relevant adjustments thereto, in each case, in a manner adverse to Borrower. Agent may select information sources or services in its reasonable discretion to ascertain the **Term SOFR Reference Rate**, **Daily Simple SOFR** or any other **Benchmark**, in each case pursuant to the terms of

this Agreement, and shall have no liability to Borrower, any Lender or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

Section 1.07 **Conforming Changes.** In connection with the use or administration of Daily Simple SOFR, Agent will (in consultation with Borrower) have the right to make Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Conforming Changes will become effective without any further action or consent of any other party to this Agreement or any other Loan Document. Agent will promptly notify Borrower and the Lenders of the effectiveness of any Conforming Changes in connection with the use or administration of Daily Simple SOFR.

ARTICLE II. COMMITMENTS

Section 2.01 **Loans and Letters of Credit.**

(a) **Loans.** Subject to the terms of this Agreement, each Lender severally agrees, on the terms and conditions of this Agreement, to make loans to Borrower during the period from and including (i) the Effective Date or (ii) such later date that such Lender becomes a party to this Agreement as provided in **Section 12.06(b)**, through the Maturity Date in an aggregate principal amount at any one time outstanding up to, but not exceeding the amount of such Lender's Commitment as then in effect; provided, however, that the aggregate principal amount of all such Loans by all Lenders hereunder at any one time outstanding together with the LC Exposure shall not exceed the Aggregate Commitments. Subject to the terms of this Agreement, during the period from the Effective Date through the Maturity Date, Borrower may borrow, repay and reborrow the amount described in this **Section 2.01(a)**.

(b) **Letters of Credit.** During the period from and including the Effective Date to, but excluding the date five (5) Business Days prior to the Maturity Date, subject to the terms of this Agreement, Issuing Bank, as issuing bank for the Lenders, agrees to extend credit for the account of Borrower or any Subsidiary at any time and from time to time by issuing, renewing, extending or reissuing Letters of Credit, provided, however, the LC Exposure at any one time outstanding shall not exceed the lesser of (i) the LC Commitment and (ii) the Aggregate Commitments, as then in effect, minus the aggregate principal amount of all Loans then outstanding. The Lenders shall participate in such Letters of Credit according to their respective Percentage Shares. Each of the Letters of Credit shall (i) be issued by Issuing Bank, (ii) contain such terms and provisions as are reasonably required by Issuing Bank, including a term of not more than twelve (12) months from the date of issuance, (iii) be for the account of Borrower or a Subsidiary and

(iv) expire not later than five (5) Business Days before the scheduled Maturity Date.

Section 2.02 **Borrowings and Letters of Credit.**

(a) **Borrowings.** Borrower shall give Agent (which shall promptly notify the Lenders) advance notice as hereinafter provided of each borrowing hereunder, which shall specify (i) the aggregate amount of such borrowing, and (ii) the date (which shall be a Business Day) of the Loans to be borrowed.

(b) **Minimum Amounts.** All SOFR Loans shall be in amounts of at least any whole multiple of \$100,000

(c) **Notices.** All borrowings shall require advance written notice to Agent (which shall promptly notify the Lenders) in the form of the Borrowing Request (or, in each case, telephonic or e-mail)

notice promptly confirmed by a Borrowing Request), which in each case shall be irrevocable, to be received by Agent not later than 11:00 a.m. Houston, Texas time three (3) Business Days prior to the date of each borrowing. Without in any way limiting Borrower's obligation to confirm in writing any telephonic notice, Agent may act without liability upon the basis of telephonic notice believed by Agent to be from Borrower prior to receipt of written confirmation.

(d) **Advances.** Not later than 11:00 a.m. Houston, Texas time on the date specified for each borrowing hereunder, each Lender shall make available the amount of the Loan to be made by it on such date to Agent, to an account which Agent shall specify, in immediately available funds, for the account of Borrower. The amounts so received by Agent shall, subject to the terms and conditions of this Agreement, be made available to Borrower by depositing the same, in immediately available funds, to one or more accounts designated by Borrower in the applicable Borrowing Request.

(e) **Letters of Credit.** Borrower shall give Issuing Bank (which shall promptly notify the Lenders of such request into a and their Percentage Share of such Letter of Credit) advance notice to be received by Issuing Bank not later than 11:00 a.m. Houston, Texas not less than three (3) Business Days prior thereto of each request for the issuance, and at least thirty (30) Business Days prior to the date of the renewal or extension, of a Borrowing Letter of Base Rate Portions in Credit hereunder which request shall specify (i) the amount of such Letter of Credit, (ii) the date (which shall be a Business Day) such Letter of Credit is to be issued, renewed or extended, (iii) the duration thereof (which shall not exceed twelve (12) months from the date of issuance), (iv) the name and address of the beneficiary thereof, and (v) such other information as Issuing Bank may reasonably request, all of which shall be reasonably satisfactory to Issuing Bank. Subject to the terms and conditions of this Agreement, on the date specified therein, for the issuance, renewal or extension of a Letter of Credit, Issuing Bank shall issue, renew or extend such Letter of Credit to the beneficiary thereof. In conjunction with the issuance of each Letter of Credit, Borrower and the Subsidiary, if the account party, shall execute a Letter of Credit Agreement. In the event of any conflict between any provision of a Letter of Credit Agreement and this Agreement, Borrower, Issuing Bank, Agent and the Lenders hereby agree that the provisions of this Agreement shall govern. Issuing Bank will send to Borrower and each Lender, promptly upon issuance of any Letter of Credit, or an amendment thereto, a true and complete copy of such Letter of Credit, or such amendment thereto.

Section 2.03 **Changes of Commitments.**

(a) The Aggregate Commitments shall at all times be equal to the lesser of (i) the Aggregate Maximum Credit Amounts after adjustments resulting from reductions pursuant to **Section 2.03(b)** and, (ii) the Borrowing Base as determined from time to time.

(b) Borrower shall have the right to terminate or to reduce the amount of the Aggregate Maximum Credit Amounts at any time, or from time to time, upon not less than three (3) Business Days' prior notice to Agent (which shall promptly notify the Lenders) of each such termination or reduction, which notice shall specify the effective date thereof and the amount of any such reduction (which shall not be less than \$250,000 or any whole multiple of \$100,000 in excess thereof) and shall be irrevocable and effective only upon receipt by Agent (unless otherwise specified by Borrower in a payoff letter or another communication accepted by Agent).

(c) The Aggregate Maximum Credit Amounts once terminated or reduced may not be reinstated.

25

Section 2.04 **Fees.**

(a) **Origination Fee.** Borrower shall pay to Agent for the account of each Lender (other than any Defaulting Lender) on the Effective Date an origination fee of \$140,000, calculated as ten (10) basis points per year for each of the four years of the term of the Loan multiplied by the initial Borrowing Base.

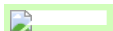
(b) **Effect Letter of Benchmark Transition Event Credit Fees.**

(i) Borrower agrees to pay Agent, for the account of each Lender (other than any Defaulting Lender), commissions for issuing the Letters of Credit on the daily average outstanding of the maximum liability of Issuing Bank existing from time to time

under such Letter of Credit (calculated separately for each Letter of Credit) at a rate per annum based on the current Applicable Margin for SOFR Loans, provided that each Letter of Credit shall bear a minimum commission of \$500. Each Letter of Credit shall be deemed to be outstanding up to the full face amount of the Letter of Credit until Issuing Bank has received the canceled Letter of Credit or a written cancellation of the Letter of Credit from the beneficiary of such Letter of Credit in form and substance acceptable to Issuing Bank, or for any deductions in the amount of the Letter of Credit (other than from a drawing), written notification from the beneficiary of such Letter of Credit. Such commissions are payable quarterly in arrears on the last day of each calendar quarter and upon cancellation or expiration of each such Letter of Credit.

(ii) Upon each issuance, renewal or extension of any Letter of Credit, Borrower shall pay a documentation fee in the sum of the greater of \$300 or two percent (2%) per annum to Agent for the account of Issuing Bank.

(iii) Borrower shall pay to Issuing Bank such other usual and customary fees of Issuing Bank associated with any transfers, amendments, drawings, negotiations or reissuances of any Letters of Credit.



Section 2.05 **GraSeveral Obligations.** The failure of any Lender to make any Loan to be made by it or to provide funds for disbursements or reimbursements under Letters of Credit on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan or provide funds on such date, but no Lender shall be responsible for the failure of any other Lender to make a Loan to be made by such other Lender or to provide funds to be provided by such other Lender.

Section 2.06 **Notes.** The Loans made by each Lender shall be evidenced by a single promissory note of Borrower in substantially the form of **Exhibit A**, dated (i) the Effective Date, (ii) the effective date of an Assignment pursuant to **Section 12.06(b)**, payable to such Lender in a principal amount equal to its Maximum Credit Amount as originally in effect and otherwise duly completed, and such substitute Notes as required by **Section 12.06(b)**. The date, amount, and interest rate of each Loan made by each Lender, and all payments made on account of the principal thereof, shall be recorded by such Lender on its books for its Note, and, prior to any transfer may be endorsed by such Lender on a schedule attached to such Note or any continuation thereof or on any separate record maintained by such Lender. Failure to make any such notation or to attach a schedule shall not affect any Lender's or Borrower's rights or obligations in respect of such Loans or affect the validity of such transfer by any Lender of its Note.

Section 2.07 **Prepayments.**

(a) **Voluntary Prepayments.** Upon not less than three (3) Business Days prior written notice to Agent, Borrower may prepay the Loans (which shall promptly notify the Lenders), which notice shall specify the prepayment date (which shall be a Business Day) and the amount of the prepayment (which shall be at least \$100,000 or, if less, the remaining aggregate principal balance outstanding on the Notes) and shall be irrevocable and effective only upon receipt by Agent, provided that interest on the principal prepaid, accrued to the prepayment date, shall be paid on the prepayment date.

(b) **Mandatory Prepayments.**

(i) **Termination or Reduction of Aggregate Maximum Credit Amounts.** If, after giving effect to any termination or reduction of the Aggregate Maximum Credit Amounts pursuant to **Section 2.03(b)**, the outstanding aggregate principal amount of the Loans plus the LC Exposure exceeds the Aggregate Commitments, Borrower shall (i) prepay the Loans on the date of such termination or reduction in an aggregate principal amount equal to the excess, together with interest on the principal amount paid accrued to the date of such prepayment and (ii) if any excess remains after prepaying all of the Loans because of LC Exposure, pay to Agent on behalf of the Lenders an amount equal to the excess to be held as cash collateral as provided in **Section 2.10(b)** hereof.

(ii) **Deficiency Resulting from Redetermination of Borrowing Base.** Upon any redetermination of the amount of the Borrowing Base in accordance with **Section 2.08**, if the redetermined Borrowing Base results in a Borrowing Base Deficiency,

then Borrower shall, within ten (10) days after being notified of the Borrowing Base Deficiency, indicate by written notice to Agent of Borrower's election (such notice an "**Election Notice**") to do the following: (w) prepay the Loans within forty-five (45) days after sending the Election Notice in an aggregate principal amount sufficient to eliminate such Borrowing Base Deficiency (together with interest on the principal amount paid accrued to the date of such prepayment), (x) grant to Agent within forty-five (45) days after sending the Election Notice a first priority Lien on additional Oil and Gas Properties of Borrower, which in the Lenders' sole determination, have sufficient value to eliminate such Borrowing Base Deficiency, (y) elect to make a payment equal to one-sixth of such Borrowing Base Deficiency (together with interest on the principal amount paid accrued to the date of such prepayment) within forty-five (45) days after sending the Election Notice and on the corresponding day of the month in each five (5) consecutive months occurring after the month of such election date (provided that if any such month does not have a corresponding day, then with respect to such month(s), the last day of the month shall be deemed to be such corresponding day and if any corresponding day is not a Business Day, then the immediately succeeding Business Day shall be deemed to be such corresponding day) or (z) eliminate the Borrowing Base Deficiency through a combination of the actions described in **clauses (w), (x) and (y)**. If, because of LC Exposure, a Borrowing Base Deficiency remains after prepaying all of the Loans and granting first priority Liens in additional Properties to Agent, Borrower shall pay to Agent on behalf of the Lenders an amount equal to such remaining Borrowing Base Deficiency to be held as cash collateral as provided in **Section 2.10(b)**.

(iii) **Transfer**. If, after a Transfer of any Borrowing Base Property to the extent allowed by **Section 9.11(a)** and the reduction in the Borrowing Base pursuant to **Section 2.08(f)**, a Borrowing Base Deficiency exists, then Borrower shall, within three (3) Business Days after receipt thereof, prepay the Loans with the net proceeds received from such

27

Transfer in an amount necessary to eliminate such Borrowing Base Deficiency. If, because of LC Exposure, a Borrowing Base Deficiency remains after prepaying all of the Loans, Borrower shall pay to Agent on behalf of the Lenders an amount equal to such remaining Borrowing Base Deficiency to be held as cash collateral as provided in **Section 2.10(b)**. Notwithstanding anything in this Agreement to the contrary, if at the time of any permitted Transfer a Borrowing Base Deficiency exists, then Borrower shall, concurrently with the receipt thereof, prepay the Loans with the net proceeds received from such Transfer to the extent necessary to eliminate the portion of the Borrowing Base Deficiency resulting from such Transfer and such preexisting Borrowing Base Deficiency; and Borrower shall remain obligated, pursuant to the terms of this Agreement, to eliminate any Borrowing Base Deficiency remaining after prepaying the Loans with the net proceeds from such Transfer. If Borrower Transfers any Borrowing Base Property at such time as an Event of Default exists, Borrower shall, concurrently with the receipt of proceeds therefrom, prepay the Loans in an amount equal to the lesser of (x) the aggregate principal amount outstanding on the Loans and (y) one hundred percent (100%) of the net proceeds received from such Transfer. The preceding sentence shall not be interpreted as permitting the sale of any Property at such time as an Event of Default exists without the prior written consent of the Lenders.

(iv) **Proceeds from Hedging Agreements during Event of Default**. At any time that an Event of Default exists, any proceeds received by Borrower under any Hedging Agreements, including as a result of the termination or early termination thereof, shall be used immediately upon receipt thereof to prepay the Loans in an amount equal to the lesser of (x) the aggregate principal amount outstanding on the Loans and (y) one hundred percent (100%) of the net proceeds received.

(v) **Triggering Event**. Upon each reduction of the Borrowing Base under **Section 2.08(g)** from the occurrence of a Triggering Event, if a Borrowing Base Deficiency then exists or results therefrom, then Borrower shall prepay the Loans or, if the Loans have been repaid in full, pay to Agent on behalf of the Lenders an amount equal to the excess to be held as cash collateral as provided in **Section 2.10(b)** hereof, in an amount equal to (A) such portion of the Borrowing Base Deficiency resulting from such reduction plus (B) if a Borrowing Base Deficiency exists prior to such reduction, then an amount equal to the lesser of (i) the net cash proceeds of such Triggering Event and (ii) such portion of the Borrowing Base Deficiency in existence immediately prior to such reduction.

(c) **Generally**. Prepayments permitted or required under this **Section 2.07** shall be without premium or penalty. Any prepayments on the Loans may be reborrowed subject to the then effective Aggregate Commitments.

Section 2.08 **Borrowing Base.**

(a) **Borrowing Base Determination.** The Borrowing Base shall be determined in accordance with **Section 2.08(b)** by Agent and the Supermajority Lenders (in the case of any reaffirmation or decrease in the Borrowing Base) or Agent and all of the Lenders (in the case of any increase in the Borrowing Base) and the Borrowing Base is subject to redetermination in accordance with **Section 2.08(d), (e), (f) and (g)**. Upon any redetermination of the Borrowing Base, such redetermination shall remain in effect until the next successive Redetermination Date. So long as any of the Commitments are in effect or any LC Exposure or Loans are outstanding hereunder, this facility shall be governed by the then effective Borrowing Base. During the period from and after the Effective Date until the next redetermination pursuant

28

to **Section 2.08(d), (e), (f) and (g)** or adjustment pursuant to **Section 8.08(c)**, the amount of the Borrowing Base shall be \$35,000,000.

(b) **Determination Procedure.** Upon receipt of the reports required by **Section 8.07** and such other reports, data and supplemental information as may from time to time be reasonably requested by Agent (the "**Engineering Reports**"), Agent and the Supermajority Lenders (in the case of any reaffirmation or decrease in the Borrowing Base) or Agent and all of the Lenders (in the case of any increase in the Borrowing Base) will redetermine the Borrowing Base. Such redetermination will be in accordance with their normal and customary practices and procedures for evaluating oil and gas reserves and other related assets as such exist at that particular time, and may also take into consideration the financial condition, Debt, hedge position and business of Borrower and its Subsidiaries and such other factors as Agent customarily deems appropriate. Agent, in its sole discretion, may make adjustments to the rates, volumes and prices and other assumptions set forth therein in accordance with its normal and customary procedures for evaluating oil and gas reserves and other related assets as such exist at that particular time. Agent shall propose to the Lenders a new Borrowing Base within fifteen (15) days following receipt by Agent and the Lenders of the Engineering Reports in a timely and complete manner. After having received notice of such proposal by Agent, the Supermajority Lenders (in the case of any reaffirmation or decrease in the Borrowing Base) or all of the Lenders (in the case of any increase in the Borrowing Base) shall have fifteen (15) days to agree or disagree with such proposal. If the Supermajority Lenders notify Agent within fifteen (15) days of their disapproval of a proposed reaffirmation, decrease or increase in the Borrowing Base, the Supermajority Lenders shall, within a reasonable period of time, agree on a new Borrowing Base. Notwithstanding anything herein to the contrary, Agent and all of the Lenders must approve any increase in the Borrowing Base.

(c) **Excluded Oil and Gas Property.** Agent may exclude any Oil and Gas Property or portion of production therefrom or any income from any other Property from the Borrowing Base, at any time, because environmental information is not reasonably satisfactory or such Property is not assignable.

(d) **Redeterminations.** So long as any of the Commitments are in effect and until payment in full of all Loans and LC Exposure hereunder and termination of all Letters of Credit issued hereunder, on or around the Scheduled Redetermination Dates of each fiscal year, the Lenders shall redetermine the amount of the Borrowing Base in accordance with **Section 2.08(b)**.

(e) **Unscheduled Redeterminations.** In addition to the redeterminations of the Borrowing Base described in **Section 2.08(b)**, (i) Borrower may initiate Unscheduled Redeterminations at any other time as it so elects by specifying in writing to Agent (who will promptly notify the Lenders) the date by which Borrower will furnish to Agent and the Lenders a Reserve Report in accordance with **Section 8.07(b)** and the date by which such redetermination is requested to occur; provided, however, that Borrower may initiate such unscheduled redetermination (x) only one time between each Scheduled Redetermination Date and (y) from time to time, pursuant to a Material Acquisition of additional Oil and Gas Properties by Borrower or any of its Subsidiaries, and (ii) Agent, at the direction of the Required Lenders, may initiate a redetermination of the Borrowing Base at any other time they so elect by specifying in writing to Borrower the date by which Borrower is to furnish a Reserve Report in accordance with **Section 8.07(b)** and the date on which such redetermination is to occur; provided, however, that Agent, at the direction of the Required Lenders, may initiate such unscheduled redetermination only one time between each Scheduled Redetermination Date.

(f) **Redetermination Concurrent with Transfer.** To the extent allowed by **Section 9.12**, if Borrower Transfers any Property between Scheduled Redetermination Dates with an aggregate Borrowing Base value (as determined by the Supermajority Lenders in their

reasonable discretion) in excess

of five percent (5%) of the Borrowing Base then in effect, the Borrowing Base shall automatically be reduced upon execution of such Transfer by an amount equal to such excess.

(g) **Redetermination Concurrent with Triggering Event.** Effective immediately upon the occurrence of a Triggering Event, the Borrowing Base shall automatically be reduced on the date such Triggering Event is effected by an amount equal to the value, if any, assigned to the hedge position or Hedging Agreement under the then effective Borrowing Base, as reasonably determined by Agent.

(h) **Effective Upon Notice.** Promptly following any redetermination of the Borrowing Base, Agent shall notify in writing Borrower and the Lenders of the new Borrowing Base. Any such redetermination of the Borrowing Base shall not be effective until Borrower receives written notice thereof.

Section 2.09 Assumption of Risks. Borrower assumes all risks of the acts or omissions of any beneficiary of any Letter of Credit or any transferee thereof with respect to its use of such Letter of Credit. Neither Issuing Bank (except in the case of gross negligence or willful misconduct on the part of Issuing Bank or any of its employees), its correspondents nor any Lender shall be responsible for the validity, sufficiency or genuineness of certificates or other documents or any endorsements thereon, even if such certificates or other documents should in fact prove to be invalid, insufficient, fraudulent or forged; for errors, omissions, interruptions or delays in transmissions or delivery of any messages by mail, telex, or otherwise, whether or not they be in code; for errors in translation or for errors in interpretation of technical terms; the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; the failure of any beneficiary or any transferee of any Letter of Credit to comply fully with conditions required in order to draw upon any Letter of Credit; or for any other consequences arising from causes beyond Issuing Bank's control or the control of Issuing Bank's correspondents. In addition, neither Issuing Bank, Agent nor any Lender shall be responsible for any error, neglect, or default of any of Issuing Bank's correspondents; and none of the above shall affect, impair or prevent the vesting of any of Issuing Bank's, Agent's or any Lender's rights or powers hereunder or under the Letter of Credit Agreements, all of which rights shall be cumulative. Issuing Bank and its correspondents may accept certificates or other documents that appear on their face to be in order, without responsibility for further investigation of any matter contained therein regardless of any notice or information to the contrary. In furtherance and not in limitation of the foregoing provisions, Borrower agrees that any action, inaction or omission taken or not taken by Issuing Bank or by any correspondent for Issuing Bank in good faith in connection with any Letter of Credit, or any related drafts, certificates, documents or instruments, shall be binding on Borrower and shall not put Issuing Bank or its correspondents under any resulting liability to Borrower. Notwithstanding the foregoing, nothing herein shall be construed to excuse the Issuing Bank from liability to Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by Borrower to the extent permitted by applicable law) suffered by Borrower that are caused by the Issuing Bank's gross negligence, willful misconduct or bad faith, as determined in a final non-appealable judgment by a court of competent jurisdiction.

Section 2.10 Obligation to Reimburse and to Prepay.

(a) **Reimbursement Obligations.** If a disbursement by Issuing Bank is made under any Letter of Credit, Borrower shall pay to Agent within two (2) Business Days after notice of any such disbursement is received by Borrower, the amount of each such disbursement made by Issuing Bank under the Letter of Credit (if such payment is not sooner effected as may be required under this **Section 2.10** or under other provisions of the Letter of Credit), together with interest on the amount disbursed from and including the date of disbursement until payment in full of such disbursed amount at a varying rate per annum equal to Daily Simple SOFR plus the Applicable Margin.. The obligations of Borrower under this Agreement with respect to each Letter of Credit shall be absolute, unconditional and irrevocable and shall

be paid or performed strictly in accordance with the terms of this Agreement under all circumstances whatsoever, including, but only to the fullest extent permitted by applicable law, the following circumstances: (i) any lack of validity or enforceability of this Agreement, any Letter of Credit or any of the Security Documents; (ii) any amendment or waiver of (including any default), or any consent to departure from this Agreement (except to the extent permitted by any amendment or waiver), any Letter of Credit or any of the Security Documents; (iii) the existence of any claim, set-off, defense or other rights which Borrower may have at any time against the beneficiary of any Letter of Credit or any transferee of any Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), Issuing Bank, Agent, any Lender or any other Person, whether in connection with this Agreement, any Letter of Credit, the Security Documents, the transactions contemplated hereby or any unrelated transaction; (iv) any statement, certificate, draft, notice or any other document presented under any Letter of Credit proves to have been forged, fraudulent, insufficient or invalid in any respect or any statement therein proves to have been untrue or inaccurate in any respect whatsoever; (v) payment by Issuing Bank under any Letter of Credit against presentation of a draft or certificate which appears on its face to comply, but does not comply, with the terms of such Letter of Credit; (vi) any affiliation between Issuing Bank and any Lender, and (vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing. Notwithstanding anything in this Agreement to the contrary, Borrower will not be liable for payment or performance that results from the gross negligence or willful misconduct of Issuing Bank, except where Borrower or any Subsidiary actually recovers the proceeds for itself or Issuing Bank of any payment made by Issuing Bank in connection with such gross negligence or willful misconduct.

(b) Cash Collateral for LC Exposure. In the event of the occurrence of any Event of Default, a payment or prepayment pursuant to **Section 2.07(b)** or the maturity of the Notes, whether by acceleration or otherwise, an amount equal to one hundred two percent (102%) of the LC Exposure (or the excess in the case of **Section 2.07(b)**) shall be deemed to be forthwith due and owing by Borrower to Issuing Bank, Agent and the Lenders as of the date of any such occurrence; Borrower shall prepay the fees payable under **Section 2.04(b)** with respect to such issued and outstanding Letters of Credit for the full remaining terms of such Letters of Credit; and Borrower's obligation to pay such amounts shall be absolute and unconditional, without regard to whether any beneficiary of any such Letter of Credit has attempted to draw down all or a portion of such amount under the terms of a Letter of Credit, and, to the fullest extent permitted by applicable law, shall not be subject to any defense or be affected by a right of set-off, counterclaim or recoupment which Borrower may now or hereafter have against any such beneficiary, Issuing Bank, Agent, the Lenders or any other Person for any reason whatsoever. Such payments shall be held by Issuing Bank on behalf of the Lenders as cash collateral securing the LC Exposure in an account or accounts at the Principal Office; and Borrower hereby grants to and by its deposit with Agent grants to Agent a security interest in such cash collateral. In the event of any such payment by Borrower of amounts contingently owing under outstanding Letters of Credit and in the event that thereafter drafts or other demands for payment complying with the terms of such Letters of Credit are not made prior to the respective expiration dates thereof, Agent agrees, if no Event of Default has occurred and is continuing or if no other amounts are outstanding under this Agreement, the Notes or any other Loan Documents, to remit to Borrower amounts for which the contingent obligations evidenced by the Letters of Credit have ceased.

(c) Lender Reimbursement. Each Lender severally and unconditionally agrees that it shall promptly reimburse Issuing Bank an amount equal to such Lender's Percentage Share of any disbursement made by Issuing Bank under any Letter of Credit that is not reimbursed according to this **Section 2.10**.

(d) Automatic Funding as Loan. Notwithstanding anything to the contrary contained herein, if no Event of Default exists or would result therefrom, to the extent Borrower has not reimbursed Issuing Bank for any drawing under a Letter of Credit within two (2) Business Days after notice of such disbursement has been received by Borrower, the amount of such Letter of Credit reimbursement obligation

shall automatically be funded by the Lenders as a Loan hereunder and used by the Lenders to pay such Letter of Credit reimbursement obligation. If an Event of Default exists, such Letter of Credit reimbursement obligation shall not be funded as a Loan, but instead shall accrue interest as provided in **Section 2.10(a)**.

Section 2.11 **Lending Offices.** The Loans made by each Lender shall be made and maintained at such Lender's Applicable Lending Office.

ARTICLE III. PAYMENTS OF PRINCIPAL AND INTEREST

Section 3.01 **Repayment of Loans.**

(a) **Loans.** On the Maturity Date Borrower shall repay the outstanding aggregate principal amount of the Notes and all accrued but unpaid interest, fees and expenses thereon.

(b) **Generally.** Borrower will pay to Agent, for the account of each Lender, the principal payments required by this **Section 3.01.**

Section 3.02 **Interest.**

(a) **Interest Rate.**

(i) Interest on the outstanding and unpaid principal balance of the Note shall be computed at a per annum rate equal to the Benchmark (initially the Daily Simple SOFR), plus the Applicable Margin, with said interest rate to be adjusted [daily], while such Benchmark is Daily Simple SOFR to account for any changes in Daily Simple SOFR; *provided, however*, in no event shall the Benchmark be less than the Floor. Each determination by Agent of the interest rate under the Note shall be conclusive and binding upon the Borrower in all respects absent manifest error and may be computed using any reasonable averaging and attribution method. Borrower understands and acknowledges that Daily Simple SOFR is a reference rate and does not necessarily represent the lowest or best rate actually charged by Agent to any customer. Borrower will pay to Agent, for the account of each Lender, interest on the unpaid principal amount of each Loan made by such Lender for the period commencing on the date such Loan is made to, but excluding, the date such Loan shall be paid in full, at the Daily Simple SOFR *plus* the Applicable Margin (as in effect from time to time), but in no event to exceed the Highest Lawful Rate.

(ii) **Benchmark Replacement.** **Setting.** Notwithstanding anything to the contrary herein or in any other Loan Document, upon Document:

(a) **Replacing the Then-Current Benchmark.** Upon the occurrence of a Benchmark Transition Event, or an Early Opt-in Election, as applicable, Administrative Agent the Benchmark Replacement will replace the then- current Benchmark immediately for all purposes hereunder and Borrower may amend this Agreement to replace LIBOR with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00 p.m. on the fifth (5th) Business Day after Administrative Agent has posted such proposed under any other Loan Document, without any amendment to, all Lenders and Borrower so long as Administrative Agent has not received, by such time, written notice or further action or consent of objection any party to such amendment from Lenders comprising the Required Lenders. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Lenders comprising the Required Lenders have delivered to Administrative Agent written notice that such this or any other Loan Document.

Seventh Amendment to Credit Agreement

Page 5

Required Lenders accept such amendment. No replacement of LIBOR with a Benchmark Replacement pursuant to this (b) **Section 3.3(b)** will occur prior to the applicable Benchmark Transition Start Date.

(ii) **Benchmark Replacement Conforming Changes.** **Changes.** In connection with the implementation and administration of a Benchmark Replacement, Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein

or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement. Agreement or any other Loan Document.

(iii) (c) **Notices: Standards for Decisions and Determinations. Administrative Determinations.** Agent will promptly notify Borrower and the Lenders of (A) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date and Benchmark Transition Start Date, (B) (i) the implementation of any Benchmark Replacement (C) and (ii) the effectiveness of any Benchmark Replacement Conforming Changes and (D) the commencement or conclusion of any Benchmark Unavailability Period. Changes. Any determination, decision or election that may be made by Administrative Agent or Lenders pursuant to this Section 3.3(b), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an any event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto or to any other Loan Document, except, in each case, as expressly required pursuant by this Section.

(d) **Temporary Unavailability of Setting of Benchmark.** Notwithstanding anything to the contrary herein or in any other Loan Document, at any time, if a relevant setting of the then-current Benchmark is temporarily unavailable due to a systemic market disruption not falling within the scope of clause (a) of this Section, as determined by Agent in its reasonable discretion, then Agent may utilize the last available setting of the then-current Benchmark until such time as the source and/or publisher of the then-current Benchmark resumes timely publication of such Benchmark's setting.

(b) **Post Default Rate.** Notwithstanding the foregoing, Borrower will pay to Agent, for the account of each Lender interest at the Post Default Rate on any principal of any Loan made by such Lender, and (to the fullest extent permitted by law) on any other amount payable by Borrower hereunder, under any Loan Document or under any Note held by such Lender to or for account of such Lender, for the period commencing on the date of an Event of Default until the same is paid in full or all Events of Default are cured or waived.

(c) **Due Dates.** Accrued interest shall be payable quarterly in arrears on the last day of each June, September, December and March of each calendar year, commencing June 30, 2023, at the Daily Simple SOFR plus the Applicable Margin, except that interest payable at the Post Default Rate shall be payable from time to time on demand. Any accrued and unpaid interest on the Loans on the Maturity Date shall be paid on such date. Notwithstanding the foregoing, the due dates set forth in this Section 3.3(b) 3.02(c) shall be subject to adjustment in accordance with Section 4.01.

(iv) (d) **Benchmark Unavailability Period Determination of Rates.** Upon Borrower's receipt Promptly after the determination of notice any interest rate provided for herein or any change therein, Agent shall notify the Lenders to which such interest is payable and Borrower thereof. Each determination by Agent of an interest rate or fee hereunder shall, except in cases of manifest error, be final, conclusive and binding on the commencement parties.

(e) **Limitation on Number of a Benchmark Unavailability Period, Borrower Daily Simple SOFR Loans.** There may revoke be no more than an aggregate of five (5) Daily Simple SOFR Loans outstanding at any request for a Borrowing time.

ARTICLE IV.
PAYMENTS; PRO RATA TREATMENT; COMPUTATIONS; ETC.

Section 4.01 Payments. Except to the extent otherwise provided herein, all payments of conversion to or continuation of LIBOR Portions principal, interest and other amounts to be made converted by Borrower under this Agreement, the Notes or continued during any Benchmark Unavailability Period and, failing that, other Loan Document shall be made in Dollars, in immediately available funds, to Agent at such account as Agent shall specify by notice to Borrower will from time to time, not later than 2:00 p.m. Houston, Texas time on the date on which such payments shall become due (each such payment made after such time on such due date to be deemed to have converted been made on the next succeeding Business Day). Such payments shall be made without (to the fullest extent permitted by applicable law) defense, set-off or counterclaim and in connection therewith, Borrower hereby waives (to the fullest extent permitted by applicable law) all defenses, rights of set-off and counterclaims it may have with respect to such payments. Each payment received by Agent under this Agreement or any Note for account of a Lender shall be paid promptly to such request into Lender in immediately available funds. Except as otherwise provided in the definition of "Interest Period", if the due date of any payment under this Agreement or any Note would otherwise fall on a request day which is not a Business Day such date shall be extended to the next succeeding Business Day and interest shall be payable for a Borrowing any principal so extended for the period of or conversion such extension.

Section 4.02 Pro Rata Treatment. Except to Base Rate Loans. During any Benchmark Unavailability Period, the component extent otherwise provided herein each Lender agrees that: (i) each borrowing from the Lenders under Section 2.01 shall be made from the Lenders pro rata in accordance with their Percentage Share, each payment of fees under Section 2.04(b)(i) shall be made for account of the Base Lenders pro rata in accordance with their Percentage Share, and each termination or reduction of the amount of the Aggregate Maximum Credit Amounts or the Elected Commitments under Section 2.03(b) shall be applied to the Commitment of each Lender, pro rata according to the amount of its respective Commitment; (ii) each payment of principal of Loans by Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amount of the Loans held by the Lenders; (iii) each payment of interest on Loans by Borrower shall be made for account of the Lenders pro rata in accordance with the amounts of interest due and payable to the respective Lenders; and (iv) each reimbursement by Borrower of disbursements under Letters of Credit shall be made for account of Issuing Bank or, if funded by the Lenders, pro rata for the account of the Lenders, in accordance with the amounts of reimbursement obligations due and payable to each respective Lender.

Section 4.03 Computations. All interest hereunder shall be computed on the basis of a year of 360 days, and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day), unless such calculation would exceed the Highest Lawful Rate, in which case interest shall be calculated on the per annum basis of a year of 365 or 366 days, as the case may be. All interest hereunder on any Loan shall be computed on a daily basis based upon LIBOR the outstanding principal amount of such Loan as of the applicable date of determination. The Daily Simple SOFR Rate shall be determined by Agent, and such determination shall be conclusive absent manifest error.

Section 4.04 Non-receipt of Funds by Agent.

(a) **Funding by Lenders; Presumption by Agent.** Unless Agent shall have received notice from a Lender, prior to the proposed date of any borrowing that such Lender will not be used make available to Agent such Lender's share of such borrowing, Agent may assume that such Lender has made such share available on such date and may, in any determination reliance upon such assumption, make available to Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the Base Rate.

(d) **Section 7.1** applicable borrowing available to Agent, then the applicable Lender and Borrower severally agree to pay to Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to Borrower but excluding the date of payment to Agent, at in the case of a payment to be made by such Lender, the greater of the Credit Agreement is hereby amended to delete the "and" at the end of subsection (q) thereof, to re-letter subsection (p) as subsection (q) Federal Funds Rate and to add new subsection (p) immediately after subsection (q) to read as follows: a rate determined by Agent

Seventh Amendment to Credit Agreement

Page 634

in accordance with banking industry rules on interbank compensation. If Borrower and such Lender shall pay such interest to Agent for the same or an overlapping period, Agent shall promptly remit to Borrower the amount of [Section 8.4](#) such interest paid by Borrower for such period. If such Lender pays its share of the [Credit Agreement](#) applicable borrowing to Agent, then the amount so paid shall constitute such Lender's Loan included in such borrowing. Any payment by Borrower shall be without prejudice to any claim Borrower may have against a Lender that shall have failed to make such payment to Agent.

(b) [Payments by Borrower; Presumptions by Agent](#). Unless Agent shall have received notice from Borrower prior to the date on which any payment is due to Agent for the account of the Lenders or Issuing Bank hereunder that Borrower will not make such payment, Agent may assume that Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or Issuing Bank, as the case may be, the amount due. In such event, if Borrower has not in fact made such payment, then each of the Lenders or Issuing Bank, as the case may be, severally agrees to repay to Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank, with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to Agent, at the greater of the Federal Funds Rate and a rate determined by Agent in accordance with banking industry rules on interbank compensation.

Section 4.05 **Set-off, Sharing of Payments, Etc.**

(a) If an Event of Default shall have occurred and be continuing, Agent, each Lender, Issuing Bank, and each of their respective Affiliates is hereby [amended](#) authorized at any time and [restated in its entirety to read as follows](#):

[Notwithstanding the foregoing, Borrower may make cash distributions to Parent so long as \(a\) no Default exists or would exist after giving effect thereto, \(b\) Utilization is not greater than 75% after giving effect thereto and \(c\) the Leverage Ratio for the most recently-ended Test Period for which financial statements are available \(calculated on a pro forma basis after giving effect to such distributions and any Borrowings made in connection therewith\) is less than or equal to 2.50 to 1.00.](#)

(f) [Article 8 of the Credit Agreement is hereby amended to add new \[Section 8.22\]\(#\) immediately after \[Section 8.21\]\(#\) to read as follows](#):

[Section 8.22 Certain Accounts Payable. For each proved developed producing well whose reserves or projected cash flow are from time to time, included to the fullest extent permitted by applicable law, to set off and apply any and all deposits \(general or special, time or demand, provisional or final, in whatever currency\) at any time held, and other obligations \(in whatever currency\) at any time owing, by Agent, such Lender, Issuing Bank or any such Affiliate, to or for the credit or the account of Borrower or any other Loan Party against any and all of the obligations of Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Documents to Agent, such Lender or Issuing Bank or their respective Affiliates, irrespective of whether or not Agent, such Lender, Issuing Bank or Affiliate shall have made any demand under this Agreement or any other Loan Document and although such obligations of Borrower or such Loan Party may be contingent or unmatured or are owed to a branch, office or Affiliate of Agent, such Lender or Issuing Bank different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness; \[provided\]\(#\) that in the event that any Defaulting Lender shall exercise any such right of setoff, \(x\) all amounts so set off shall be paid over immediately to Agent for further application in accordance with the provisions of \[Section 12.07\]\(#\) and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of Agent, Issuing Bank, and the Lenders, and \(y\) the Defaulting Lender shall provide promptly to Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of Agent, each Lender, Issuing Bank and their respective Affiliates under this \[Section\]\(#\) are in addition to other rights and remedies \(including other rights of setoff\) that Agent, such Lenders, Issuing Bank or their respective Affiliates may have. Each Lender and Issuing Bank agrees to notify Borrower and Agent promptly after any such setoff and application; \[provided\]\(#\) that the failure to give such notice shall not affect the validity of such setoff and application.](#)

(b) If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or other obligations hereunder resulting in such Lender receiving payment of a proportion of the aggregate amount of its Loans and accrued interest thereon or other such obligations greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (x) notify Agent of such fact, and (y) purchase (for cash at face value) participations in the Loans and such other obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders

ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them; provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this **paragraph** shall not be construed to apply to (x) any payment made by Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any **Reserve Report**, **there** of its Loans or participations in Letters of Credit to any assignee or participant, other than to Borrower or any Affiliate or Subsidiary thereof (as to which the provisions of this **paragraph** shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against each Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of each Loan Party in the amount of such participation. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this **Section 4.05** applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this **Section 4.05** to share the benefits of any recovery on such secured claim.

Section 4.06 Taxes.

(a) **Defined Terms.** For purposes of this **Section 4.06**, the term “Lender” includes Issuing Bank and the term “applicable law” includes FATCA.

(b) **Payments Free and Clear.** Any and all payments by or on account of any obligation of any Loan Party under any Loan Document shall be **no outstanding accounts** made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of an applicable Withholding Agent) requires the deduction or withholding of any Tax from any such payment by a Withholding Agent, then the applicable Withholding Agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by the applicable Loan Party shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this **Section**) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) **Other Taxes.** The Loan Parties shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of Agent, timely reimburse it for the payment of any Other Taxes.

(d) **INDEMNIFICATION BY LOAN PARTIES.** TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE LOAN PARTIES SHALL JOINTLY AND SEVERALLY INDEMNIFY EACH RECIPIENT, WITHIN TEN (10) DAYS AFTER DEMAND THEREFOR, FOR THE FULL AMOUNT OF ANY INDEMNIFIED TAXES (INCLUDING INDEMNIFIED TAXES IMPOSED OR ASSERTED ON OR ATTRIBUTABLE TO AMOUNTS PAYABLE UNDER THIS **SECTION**) PAYABLE OR PAID BY SUCH RECIPIENT OR REQUIRED TO BE WITHHELD OR

DEDUCTED FROM A PAYMENT TO SUCH RECIPIENT AND ANY REASONABLE EXPENSES ARISING THEREFROM OR WITH RESPECT THERETO, WHETHER OR NOT SUCH INDEMNIFIED TAXES WERE CORRECTLY OR LEGALLY IMPOSED OR ASSERTED BY THE RELEVANT GOVERNMENTAL AUTHORITY. A CERTIFICATE AS TO THE AMOUNT OF SUCH PAYMENT OR LIABILITY DELIVERED TO BORROWER BY A LENDER (WITH A COPY TO AGENT), OR BY AGENT ON ITS OWN BEHALF OR ON BEHALF OF A LENDER, SHALL BE CONCLUSIVE ABSENT MANIFEST ERROR.

(e) INDEMNIFICATION BY THE LENDERS. EACH LENDER SHALL SEVERALLY INDEMNIFY AGENT, WITHIN TEN (10) DAYS AFTER DEMAND THEREFOR, FOR (i) ANY INDEMNIFIED TAXES ATTRIBUTABLE TO SUCH LENDER (BUT ONLY TO THE EXTENT THAT ANY LOAN PARTY HAS NOT ALREADY INDEMNIFIED AGENT FOR SUCH INDEMNIFIED TAXES AND WITHOUT LIMITING THE OBLIGATION OF THE LOAN PARTIES TO DO SO), (ii) ANY TAXES ATTRIBUTABLE TO SUCH LENDER'S FAILURE TO COMPLY WITH THE PROVISIONS OF **SECTION 12.06** RELATING TO THE MAINTENANCE OF A PARTICIPANT REGISTER AND (iii) ANY EXCLUDED TAXES ATTRIBUTABLE TO SUCH LENDER, IN EACH CASE, THAT ARE PAYABLE OR PAID BY AGENT IN CONNECTION WITH ANY LOAN DOCUMENT, AND ANY REASONABLE EXPENSES ARISING THEREFROM OR WITH RESPECT THERETO, WHETHER OR NOT SUCH TAXES WERE CORRECTLY OR LEGALLY IMPOSED OR ASSERTED BY THE RELEVANT GOVERNMENTAL AUTHORITY. A CERTIFICATE AS TO THE AMOUNT OF SUCH PAYMENT OR LIABILITY DELIVERED TO ANY LENDER BY AGENT SHALL BE CONCLUSIVE ABSENT MANIFEST ERROR. EACH LENDER HEREBY AUTHORIZES AGENT TO SET OFF AND APPLY ANY AND ALL AMOUNTS AT ANY TIME OWING TO SUCH LENDER UNDER ANY LOAN DOCUMENT OR OTHERWISE PAYABLE BY AGENT TO THE LENDER FROM ANY OTHER SOURCE AGAINST ANY AMOUNT DUE TO AGENT UNDER THIS **SECTION 4.06(E)**.

(f) Evidence of Payments. As soon as practicable after any payment of Taxes by any Loan Party to a Governmental Authority pursuant to this **Section 4.06**, such Loan Party shall deliver to Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Agent.

(g) Status of Lenders.

(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to Borrower and Agent, at the time or times reasonably requested by Borrower or Agent, such properly completed and executed documentation reasonably requested by Borrower or Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by Borrower or Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by Borrower or Agent as will enable Borrower or Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

37

(ii) Without limiting the generality of the foregoing,

(1) any Lender that is a U.S. Person shall deliver to Borrower and Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of Borrower or Agent), executed originals of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(2) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in *Section 1471(b)* or *1472(b)* of the Code, as applicable), such Lender shall deliver to Borrower and Agent at the time or times prescribed by law and at such time or times reasonably requested by Borrower or Agent such documentation prescribed by applicable law (including as prescribed by *Section 1471(b)(3)(C)(i)* of the Code) and such additional documentation reasonably requested by Borrower or Agent as may be necessary for Borrower and Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this **clause (2)**, "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify Borrower and Agent in writing of its legal inability to do so.

(h) **Treatment of Certain Refunds.** If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this **Section 4.06** (including by the payment of additional amounts pursuant to this **Section 4.06**), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this **Section 4.06** with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this **Section 4.06(h)** (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this **Section 4.06(h)**, in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this **Section 4.06(h)** the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This **paragraph** shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(i) **Survival.** Each party's obligations under this **Section 4.06** shall survive the resignation or replacement of Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

38

ARTICLE V. ADDITIONAL COSTS

Section 5.01 **Additional Costs.**

(a) **Regulations, etc.** If any Regulatory Change shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender or Issuing Bank;

(ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in **clauses (b)** through **(d)** of the definition of Excluded Taxes and (C) Connection Income Taxes) on its Loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender or Issuing Bank any other condition, cost or expense (in each case, other than Taxes) affecting this Agreement or Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender or such other Recipient of making, converting to, continuing or maintaining any Loan or of maintaining its obligation to make any such Loan, or to increase the cost to such Lender, Issuing Bank or such other Recipient of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender, Issuing Bank or other Recipient hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, Issuing Bank or other Recipient, Borrower will pay to such Lender, Issuing Bank or other Recipient, as the case may be, such additional amount or amounts as will compensate such Lender, Issuing Bank or other Recipient, as the case may be, for such additional costs incurred or reduction suffered. If any Lender requests compensation from Borrower under this **Section 5.01(a)**, Borrower may, by notice to such Lender, suspend the obligation of such Lender to make additional Loans until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of **Section 5.04** shall be applicable).

(b) **Capital Adequacy.** If any Lender or Issuing Bank determines that any Regulatory Change affecting such Lender or Issuing Bank or any lending office of such Lender or such Lender's or Issuing Bank's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on such Lender's or Issuing Bank's capital or on the capital of such Lender's or Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by Issuing Bank, to a level below that which such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company could have achieved but for such Regulatory Change (taking into consideration such Lender's or Issuing Bank's policies and the policies of such Lender's or Issuing Bank's holding company with respect to capital adequacy), then from time to time Borrower will pay to such Lender or Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company for any such reduction suffered.

(c) **Certificates for Reimbursement.** A certificate of a Lender or Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or Issuing Bank or its holding company, as the case may be, as specified in **Section 5.01(a)** or **(b)** and delivered to Borrower, shall be conclusive

absent manifest error. Borrower shall pay such Lender or Issuing Bank, as the case may be, the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) **Delay in Requests.** Failure or delay on the part of any Lender or Issuing Bank to demand compensation pursuant to this **Section** shall not constitute a waiver of such Lender's or Issuing Bank's right to demand such compensation; provided that Borrower shall not be required to compensate a Lender or Issuing Bank pursuant to this **Section** for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender or Issuing Bank, as the case may be, notifies Borrower of the Regulatory Change giving rise to such increased costs or reductions, and of such Lender's or Issuing Bank's intention to claim compensation therefor (except that, if the Regulatory Change giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

Section 5.02 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to honor its obligation to make or maintain SOFR Loans hereunder, then such Lender shall promptly notify Borrower thereof and such Lender's obligation to make SOFR Loans shall be suspended until such time as such Lender may again make and maintain SOFR Loans

Section 5.03 Indemnity. Borrower hereby indemnifies each of the Lenders against any loss, cost or expense (including any loss, cost or expense arising from the liquidation or reemployment of funds) which may arise, be attributable to or result due to or as a consequence of (a)

any failure by Borrower to make any payment when due of any amount due hereunder in connection with a Daily Simple SOFR Loan, (b) any failure of Borrower to borrow or continue a Daily Simple SOFR Loan on a date specified therefor in a Borrowing Request, (c) any failure of Borrower to prepay any Daily Simple SOFR Loan on a date specified therefor in any Notice of Prepayment, (d) any payment, prepayment or conversion of any Daily Simple SOFR Loan on a date other than on a date other than the last day of the Interest Period therefor (including as a result of an **authorization** Event of Default) or (e) the assignment of any Daily Simple SOFR Loan other than on the last day of the Interest Period applicable thereto. A certificate of such Lender setting forth the basis for **expenditure that are associated with** determining such **well** amount or amounts necessary to compensate such Lender shall be forwarded to Borrower through Agent and shall be conclusively presumed to be correct save for manifest error. All of the obligations of the Loan Parties under this **Section 5.03** shall survive the resignation or replacement of Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 5.04 Mitigation Obligations; Replacement of Lenders.

(a) **Designation of a Different Lending Office.** If any Lender requests compensation under **Section 5.01**, or requires Borrower to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to **Section 4.06**, then such Lender shall (at the request of Borrower) use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to **Section 5.01** or **Section 4.06**, as the case may be, in the future, and

(g)

(ii) **Section 9.1 of the Credit Agreement** is would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. Borrower hereby **amended** agrees to **delete the reference to "3.50"** pay all reasonable costs and **to replace it** expenses incurred by any Lender in connection with **"3.00"** any such designation or assignment.

SECTION

3.

(b) **Conditions Replacement of Effectiveness Lenders.** The amendments set forth If any Lender requests compensation under **Section 5.01**, or requires Borrower to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to **Section 4.06**, and, in each case, such

40

Lender has declined or is unable to designate a different lending office in accordance with **Section 25.04(a)**, is subject to restrictions based on **Section 5.02**, or if any Lender is a Defaulting Lender or a Non-Consenting Lender, then Borrower may, at its sole expense and effort, upon notice to such Lender and Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, **Section 12.06**), all of its interests, rights (other than its existing rights to payments pursuant to **Section 5.01** or **Section 4.06**) and obligations under this **Amendment**, as well as any other **terms** Agreement and **conditions set forth herein**, the related Loan Documents to an Eligible Assignee that shall assume such obligations (which assignee may be **effective as of date Administrative** another Lender, if a Lender accepts such assignment); *provided that:*

(i) Borrower shall have paid to Agent the assignment fee (if any) specified in **Section 12.06**;

(ii) such Lender shall have received **each** payment of an amount equal to the outstanding principal of its Loans and participations in disbursements under Letters of Credit that have not yet been reimbursed, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under **Section 5.03**) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or Borrower (in the case of all other amounts);

(iii) in the case of any such assignment resulting from a claim for compensation under **Section 5.01** or payments required to be made pursuant to **Section 4.06**, such assignment will result in a reduction in such compensation or payments thereafter;

(iv) such assignment does not conflict with applicable Governmental Requirements; and

(v) in the case of an assignment resulting from a Lender becoming a Non-Consenting Lender, the applicable assignee shall have consented to the applicable amendment, waiver or consent.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling Borrower to require such assignment and delegation cease to apply.

ARTICLE VI. CONDITIONS PRECEDENT

Section 6.01 Initial Funding. The obligation of the Lenders under this Agreement are subject to the receipt by Agent of the following documents (in sufficient original counterparts, other than the Notes, for each Lender) and satisfaction of the other conditions provided in this **Section 6.01**, each of which shall be satisfactory to Agent in form and substance:

(a) A certificate of a Responsible Officer of Borrower setting forth (i) resolutions of its board of directors, members, managers, general partner or other governing body, as applicable, with respect to the authorization of Borrower to execute and deliver the Loan Documents to which it is a party and to enter into the transactions contemplated in those documents, (ii) the officers of Borrower and/or its general partner (y) who are authorized to sign the Loan Documents to which Borrower is a party and (z) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications in connection with this Agreement and the transactions contemplated hereby, (iii) specimen signatures of the authorized officers, and (iv) the Constituent Documents of Borrower, certified as being true and complete.

41

Agent and the Lenders may conclusively rely on such certificate until Agent receives notice in writing from Borrower to the contrary.

(b) A certificate of a Responsible Officer of each Guarantor setting forth (i) resolutions of its board of directors, members, managers, general partner or managing member or other governing body, as applicable, with respect to the authorization of such Guarantor to execute and deliver the Loan Documents to which it is a party and to enter into the transactions contemplated in those documents, (ii) the officers of such Guarantor and/or its general partner or managing member (y) who are authorized to sign the Loan Documents to which such Guarantor is a party and (z) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications in connection with this Agreement and the transactions contemplated hereby, (iii) specimen signatures of the authorized officers, and (iv) the Constituent Documents of such Guarantor, certified as being true and complete. Agent and the Lenders may conclusively rely on such certificate until Agent receives notice in writing from such Guarantor to the contrary.

(c) Certificates of the appropriate state agencies with respect to the existence, qualification and good standing of Borrower and each Guarantor.

(d) The Initial Reserve Report.

(e) A certificate duly and properly executed by a Responsible Officer of Borrower, in form and substance satisfactory to Administrative Agent, attesting to the Solvency of the Loan Parties immediately after giving effect to the Transactions.

(a) (f) This Agreement, the Notes, and the Security Documents, each duly completed and executed and, if applicable, in sufficient number of counterparts for recording.

(g) Certificates of this Amendment executed insurance evidencing the existence of all insurance required to be carried and maintained by Borrower and the Guarantors in accordance with Section 7.18 and Section 8.03(b) and describing the types and amounts of insurance (property and liability) maintained by any of the Loan Parties.

(h) Agent and the Lenders and Administrative Agent;
(b) an extension fee in an amount equal to \$90,000 and shall have received all other fees and amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid pursuant by Borrower hereunder (including, to the Loan Documents, including, without limitation, extent invoiced at least one Business Day prior to the Effective Date, the fees and expenses of Winstead PC invoiced on Murphy Mahon Keffler Farrier, LLP, counsel to Agent).

(i) Agent shall have received all appropriate evidence required by Agent necessary to determine that Agent (for its benefit and the benefit of the Beneficiaries) shall have an Acceptable Security Interest in the Collateral at a minimum complying with the threshold under Section 8.09(a), subject to proper recording of the applicable Security Documents,

(j) Agent shall be satisfied with the results of a recent search of all effective UCC financing statements (or equivalent filings) made with respect to any personal or mixed property of Borrower and each Guarantor that is Collateral in all applicable jurisdictions.

(k) Agent shall be satisfied with the ownership, management, capital and corporate, organization, tax and legal structure of Borrower and the Guarantors.

42

(l) At least five (5) Business Days prior to the Seventh Amendment Execution Date; Effective Date, Agent shall have received (i) all documentation and other information that is required by regulatory authorities under applicable "know your customer" and anti-money-laundering rules and regulations, including, without limitation, the Patriot Act, and (ii) for any Loan Party that qualifies as a "legal entity customer" under the Beneficial Ownership Regulation, a Beneficial Ownership Certification in relation to such Loan Party.

(m) Agent shall have received from Texas Capital Bank copies of releases of all liens and security interests granted to such bank by Borrower or any of its Subsidiaries as security for the loan from Texas Capital Bank to Borrower.

(n) Such other documents as Agent or any Lender or special counsel to Agent may reasonably request and customary for these types of loans pursuant to Agent's or Lender's current lending guidelines.

Section 6.02 Initial and Subsequent Loans and Letters of Credit. The obligation of the Lenders to make Loans to Borrower upon the occasion of each borrowing hereunder and to issue, renew, extend or reissue Letters of Credit for the account of Borrower (including the Initial Funding) is subject to Agent receiving an executed Borrowing Request and the further conditions precedent that, as of the date of such Loans and after giving effect thereto:

(a) no Default shall exist; and

SECTION

4. (b) Decrease the representations and warranties made by Borrower in Article VII and by Borrower and the Guarantors in the other Loan Documents to which they are a party shall be true in all material respects on and as of Borrowing Base. Subject the date of the making of such Loans or issuance, renewal, extension or reissuance of a Letter of Credit with the same force and effect as if made on and as of such date and following such new borrowing, except to the satisfaction extent such representations and warranties are expressly limited to an earlier date or the Required Lenders may expressly consent in writing to the contrary.

Each Borrowing Request or request for issuance, renewal, extension or reissuance of a Letter of Credit by Borrower hereunder shall constitute a certification by Borrower that the conditions of effectiveness statements set forth in Section 3 of this Amendment 6.02(a) and effective (b) are true (both as of the Seventh Amendment Execution Date, date of such notice and, unless Borrower otherwise notifies Agent prior to the Borrowing Base is hereby decreased from \$23,000,000 to \$18,000,000. The foregoing redetermination date of and immediately following such borrowing or issuance, renewal, extension or reissuance of a Letter of Credit as of the Borrowing Base is deemed a periodic redetermination date thereof).

Section 6.03 Conditions Precedent for the Benefit of Lenders. All conditions precedent to the obligations of the Borrowing Base under Section 2.10(b) Lenders to make any Loan are imposed hereby solely for the benefit of the Credit Agreement as Lenders, and no other Person may require satisfaction of October 1, 2020. The Borrowing Base as so redetermined shall remain any such condition precedent or be entitled to assume that the Lenders will refuse to make any Loan in effect until the next periodic redetermination absence of the Borrowing Base under Section 2.10(b) of the Credit Agreement, unless otherwise adjusted pursuant to the Credit Agreement. Borrower, Administrative Agent strict compliance with such conditions precedent.

Section 6.04 No Waiver. No waiver of any condition precedent shall preclude Agent or the Lenders from requiring such condition to be met prior to making any subsequent Loan or preclude the Lenders from thereafter declaring that the failure of Borrower to satisfy such condition precedent constitutes a Default.

Seventh Amendment to Credit Agreement ARTICLE VII.

Page 7 REPRESENTATIONS AND WARRANTIES

SECTION 5. Acknowledgment Borrower represents and Ratification. As a material inducement warrants to Administrative Agent and the Lenders that (each representation and warranty herein is given as of the Effective Date and shall be deemed repeated and reaffirmed on the dates of each borrowing and issuance, renewal, extension or reissuance of a Letter of Credit as provided in Section 6.02):

Section 7.01 Corporate Existence. Borrower and each Subsidiary: (i) is duly organized, legally existing and in good standing under the laws of the jurisdiction of its formation; (ii) has all requisite power, and has all material governmental licenses, authorizations, consents and approvals necessary to execute own its assets and deliver this Amendment, carry on its business as now being or as proposed to be conducted; and (iii) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary, except in each Obligated Party acknowledges such case where failure to have such power, licenses, authorizations, consents, approvals and agrees that qualifications could not reasonably be expected to have a Material Adverse Effect.

Section 7.02 **Financial Condition.** All financial information provided to Agent prior to the execution, delivery, Effective Date is complete and performance correctly and fairly presents in all material respects the consolidated financial condition of this Amendment shall, Borrower and its Subsidiaries, subject to year-end audit adjustments and the absence of footnotes in the case of unaudited financial statements. None of Borrower nor any Subsidiary has on the Effective Date any Material Debt, material contingent liabilities, material liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as expressly referred to or reflected or provided herein, for in the financial information provided to Agent prior to the Effective Date. Since the date of such financial information provided to Agent prior to the Effective Date, there has been no way release, diminish, impair, reduce, change or otherwise affect the obligations event having a Material Adverse Effect.

Section 7.03 **Litigation.** Except as set forth on Schedule 7.03, there is no litigation, legal, administrative or arbitral proceeding, investigation or other action of any Obligated Party under nature pending or, to the knowledge of Borrower threatened against or affecting Borrower or any Subsidiary (i) which involves the reasonable possibility of any judgment or liability against Borrower or any Subsidiary that is not fully covered by insurance (except for normal deductibles) and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, or (ii) that challenge the validity of the Loan Documents which or the Transactions.

Section 7.04 **No Breach.** Neither the execution and delivery of the Loan Documents, shall remain in full force and effect.

SECTION 6. Borrower's Representations and Warranties. As a material inducement to Administrative Agent and the Lenders to execute and deliver this Amendment, each Obligated Party represents and warrants to Administrative Agent and the Lenders (with the knowledge and intent that Administrative Agent and the Lenders are relying upon the same in entering into this Amendment) that, as of the Seventh Amendment Execution Date:

(a) The execution, delivery, and performance by such Person of this Amendment and nor compliance with the terms and provisions hereof have been duly authorized by all requisite action on the part of such Person and do not and thereof, will not (i) violate or conflict with or result in a breach of, or require any consent which has not been obtained as of the Effective Date under, (A) the respective Constituent Documents of such Person, (B) any applicable law, rule, or regulation Borrower or any order, writ, injunction, Subsidiary, or decree of any Governmental Authority Requirement or arbitrator which could result in a Material Adverse Event, or (C) any material agreement or instrument to which such Person Borrower or any Subsidiary is a party or by which it or any of its Properties is bound or to which it or its Properties are subject, which could result in a Material Adverse Event, or (ii) constitute a default under any such agreement or instrument, which could result in a Material Adverse Event, or result in the creation or imposition of any Lien upon any of the revenues or assets of Borrower or any Subsidiary pursuant to the terms of any such Person. agreement or instrument other than the Liens created by the Loan Documents.

(b) Section

7.05 **Authority** This Amendment constitutes legal, valid, . Borrower and binding obligation of such Person, enforceable against such Person in accordance with each Subsidiary have all necessary entity power and authority to execute, deliver and perform its terms, except as limited by Debtor Relief Laws.

(c) No authorization, approval, or consent of, obligations under the Loan Documents to which it is a party; and no filing or registration with, any Governmental Authority or third party is or will be necessary for the execution, delivery orand performance by such Person Borrower and each Subsidiary of this Amendment or the validity or enforceability hereof.

(d) All of the representations and warranties contained in Article 6 of the Credit Agreement are true and correct on and as of the Seventh Amendment Execution Date with the same force and effect as if such representations and warranties had been made on and as of the Seventh Amendment Execution Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 7(d), the representations and warranties contained in Section 6.2 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 7.1(a) and (b) of the Credit Agreement, respectively.

(e) At the time of and after giving effect to this Amendment, no Default exists.

SECTION 7. Effect of Amendment. This Amendment, except as expressly provided herein, (a) shall not be deemed to be a consent to the modification or a waiver of any other term

Seventh Amendment to Credit Agreement

Page 8

or condition of the Credit Agreement, any Security Document or any other Loan Document, (b) shall not prejudice any right or rights which Administrative Agent or the Lenders may now or hereafter have under or in connection with the Credit Agreement, any Security Document or any other Loan Document, and (c) shall not be deemed to be a waiver of any existing or future Default under the Credit Agreement, any Security Document or any other Loan Document.

SECTION 8. Miscellaneous. This Amendment shall be governed by, and construed in accordance with, the laws of the State of Texas. The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof. This Amendment may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In evidencing this Amendment, it shall not be necessary to produce or account for more than one such counterpart. This Amendment, and any documents required or requested to be delivered pursuant to Section 3 hereof, may be delivered by facsimile or pdf transmission of the relevant signature pages hereof and thereof, as applicable.

SECTION 9. Ratification. Each Obligated Party ratifies and acknowledges that the Loan Documents to which it is a party, have been duly authorized by all necessary entity action on its part; and the Loan Documents constitute the legal, valid and binding obligations of Borrower and each Subsidiary party thereto, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 7.06 Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority are necessary for the execution, delivery or performance by Borrower or any Subsidiary of the Loan Documents, or for the validity or enforceability thereof, except for (i) the recording and filing of the Security Documents as required by this Agreement and (ii) those third party approvals or consents which, if not made or obtained, could not reasonably be expected to have a Material Adverse Effect.

44

Section 7.07 Use of Loans. The proceeds of the Loans shall be used (i) to refinance and pay in full the obligations of Borrower to Texas Capital Bank, (ii) for issuance and support of Letters of Credit, (iii) to pay fees and expenses related to the Transactions, (iv) to fund the acquisition and development of Oil and Gas Properties and other assets and expenses related to exploration, production and development of oil and gas properties, and (v) to fund working capital, capital expenditures and for other general corporate purposes (including payment of fees and expenses). Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying margin stock (within the meaning of Regulation T, U or X of the Board of Governors of the Federal Reserve System) and no part of the proceeds of any Loan hereunder will be used to buy or carry any margin stock. Borrower will not request any Loan or Letter of Credit, and Borrower shall not use, and shall ensure that its Subsidiaries and its or their respective directors, officers, employees and agents shall not use, the proceeds of any Loan or Letter of Credit (x) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of the United States Foreign Corrupt Practices Act of 1977, as amended and in effect from time to time or any other law, rule, or regulation of any jurisdiction applicable to Borrower or its

Subsidiaries from time to time concerning or relating to bribery or corruption, (y) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, or (z) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

Section 7.08 **ERISA. Except as would not reasonably be expected to have a Material Adverse Effect:**

(a) Borrower, each Subsidiary and each ERISA Affiliate have complied in all material respects with ERISA and, where applicable, the Code regarding each Plan.

(b) Each Plan is, and has been, maintained in substantial compliance with ERISA and, where applicable, the Code.

(c) No act, omission or transaction has occurred which could result in imposition on Borrower, any Subsidiary or any ERISA Affiliate (whether directly or indirectly) of (i) either a civil penalty assessed pursuant to Section 502(c), (i) or (1) of ERISA or a tax imposed pursuant to Chapter 43 of Subtitle D of the Code or (ii) breach of fiduciary duty liability damages under Section 409 of ERISA.

(d) No liability to the PBGC (other than for the payment of current premiums which are not past due) by Borrower, any Subsidiary or any ERISA Affiliate has been or is expected by Borrower, any Subsidiary or any ERISA Affiliate to be incurred with respect to any Plan. No ERISA Event with respect to any Plan has occurred.

(e) Full payment when due has been made of all amounts which Borrower, any Subsidiary or any ERISA Affiliate is required under the terms of each Plan or applicable law to have paid as contributions to such Plan, and no accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any Plan.

(f) The actuarial present value of the benefit liabilities under each Plan which is subject to Title IV of ERISA does not, as of the end of Borrower's most recently ended fiscal year, exceed the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities. The term "actuarial present value of the benefit liabilities" has the meaning specified in Section 4041 of ERISA.

45

(g) None of Borrower, any Subsidiary or any ERISA Affiliate sponsors, maintains, or contributes to an employee welfare benefit plan, as defined in section 3(1) of ERISA, including any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by Borrower, a Subsidiary or any ERISA Affiliate in its sole discretion at any time without any material liability.

(h) None of Borrower, any Subsidiary or any ERISA Affiliate sponsors, maintains or contributes to, or has at any time in the preceding six (6) calendar years, sponsored, maintained or contributed to, any Multiemployer Plan.

(i) None of Borrower, any Subsidiary or any ERISA Affiliate is required to provide security under Section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the Plan.

Section 7.09 **Taxes. Borrower and each of its Subsidiaries has filed all United States Federal income tax returns and all other tax returns which are required to be filed by them and have paid all material taxes due pursuant to such returns or pursuant to any assessment received by Borrower or any Subsidiary, except (i) taxes that are being contested in good faith by appropriate proceedings and for which Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves in accordance with GAAP or (ii) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect. The charges, accruals and reserves on the books of Borrower and its Subsidiaries in respect of taxes and other governmental charges are,**

in the opinion of Borrower, adequate. No tax lien has been filed and, to the knowledge of Borrower, no claim is being asserted with respect to any such tax, fee or other charge.

Section 7.10 Titles, Etc.

(a) Borrower and each of its Subsidiaries has good and defensible title to its Hydrocarbon Interests and good and defensible title to all other material (individually or in the aggregate) Properties, free and clear of all Liens, except Permitted Liens. After giving full effect to the Excepted Liens, Borrower (or a Subsidiary of Borrower) owns in all material respects the working interests and net revenue interests in production attributable to the Hydrocarbon Interests reflected in the most recently delivered or updated Reserve Report, and the ownership of such Properties shall not in any material respect obligate Borrower (or its Subsidiary) to bear the costs and expenses relating to the maintenance, development and operations of each such Property in an amount in excess of the working interest of each Property set forth in the most recently delivered Reserve Report that is not offset by a corresponding proportionate increase in Borrower's (or such Subsidiary's) net revenue interest in such Property or the revenues therefrom.

(b) All material leases and agreements necessary for the conduct of the business of Borrower and its Restricted Subsidiaries are valid and subsisting, in full force and effect and, to the knowledge of Borrower, there exists no default or event or circumstance which with the giving of notice or the passage of time or both would give rise to a default under any such lease or leases, which would reasonably be expected to have a Material Adverse Effect.

(c) The rights, Properties and other assets presently owned, leased or licensed by Borrower and its Subsidiaries including all easements and rights of way, include all rights, Properties and other assets necessary to permit Borrower and its Subsidiaries to conduct their business in all material respects in the same manner as its business has been conducted prior to the Effective Date.

(d) All of the assets and Properties of Borrower and its Subsidiaries which are reasonably necessary for the operation of its business are in good working condition and are maintained in accordance with prudent business standards.

(e) To Borrower's knowledge, there are no outstanding preferential rights or consents to assign affecting Borrower's or any Subsidiary's Borrowing Base Properties that would impair, inhibit or prevent Borrower or any Subsidiary from freely granting security interests therein pursuant to the Security Documents or Agent as lienholder for and on behalf of the Beneficiaries from exercising remedies, including any judicial or private foreclosure sale or deed-in-lieu of such sale and transfer to third parties.

Section 7.11 No Material Misstatements. The written information, statements, exhibits, certificates, documents and reports, taken as a whole, furnished to Agent and the Lenders (or any of them) by Borrower or any Subsidiary in connection with the negotiation of this Agreement do not contain any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein in the light of the circumstances in which made, materially misleading; provided that (a) to the extent any such information, statement, exhibit, certificate, document, or report was based upon or constitutes a forecast or projection, Borrower represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, statement, exhibit, certificate, document, or report (it being recognized by the Lenders, however, that projections as to future events are not to be viewed as facts and that results during the period(s) covered by such projections may differ from the projected results and that such differences may be material and that Borrower makes no representation that such projections will be realized) and (b) as to information, statements, documents and reports supplied by third parties, Borrower represents only that it is not aware of any material misstatement or omission therein. There is no fact peculiar to Borrower or any Subsidiary which has a Material Adverse Effect or in the future is reasonably likely to have (so far as Borrower can now foresee) a Material Adverse Effect and which has not been set forth in this Agreement or the other documents, certificates and statements furnished to Agent by or on behalf

of Borrower or any Subsidiary prior to, or on, the Effective Date in connection with the transactions contemplated hereby. All information set forth or disclosed in the Beneficial Ownership Certification is true and correct in all respects.

Section 7.12 **Investment Company Act.** Except as set forth herein, neither Borrower nor any Subsidiary is an “investment company” or a company “controlled” by an “investment company,” within the meaning of the Investment Company Act of 1940 (the “ICA”), as amended, provided that Borrower and its Subsidiaries are within the definition set forth in Section 2(a)(36) of the ICA, and exempted pursuant to Section 3(a)(9) of the ICA.

Section 7.13 **Subsidiaries.** Except as set forth on Schedule 7.13 or as disclosed in writing to Agent (whether in connection with the formation or acquisition of a new Subsidiary under Section 8.15, a designation or re-designation of a Subsidiary under Section 8.16 or otherwise), which shall upon disclosure be deemed a supplement to Schedule 7.13, Borrower has no Subsidiaries.

Section 7.14 **Location of Business and Offices; Tax Identification and Organizational Identification Numbers.** Borrower’s principal place of business and chief executive offices are located at the address stated on the signature page of this Agreement. The principal place of business and chief executive office of each Subsidiary and each Guarantor are located at the addresses stated on Schedule 7.14. The tax identification number, organizational identification number and state of formation for Borrower, each Subsidiary and each Guarantor are set forth on Schedule 7.14.

Section 7.15 **Defaults.** Neither Borrower nor any Subsidiary is in default nor has any event or circumstance occurred which, but for the expiration of any applicable grace period or the giving of notice, or both, would constitute a default under any indenture, note, credit agreement or similar instrument pursuant to which any Material Debt is outstanding or by which Borrower or any Subsidiary is bound. No Default hereunder has occurred and is continuing.

Section 7.16 **Environmental Matters.** To the knowledge of Borrower, except (i) as provided in Schedule 7.16 or (ii) as would not have a Material Adverse Effect (or with respect to clauses (c), (d) and (e) below, where the failure to take such actions would not have a Material Adverse Effect):

(a) Neither any Property of Borrower or any Subsidiary nor the operations conducted thereon violate any order or requirement of any court or Governmental Authority or any Environmental Laws;

(b) Without limitation of clause (a) above, no Property of Borrower or any Subsidiary nor the operations currently conducted thereon or, to the knowledge of Borrower, by any prior owner or operator of such Property or operation, are in violation of or subject to any existing, pending or threatened action, suit, investigation, inquiry or proceeding by or before any court or Governmental Authority or to any remedial obligations under Environmental Laws;

(c) All notices, permits, licenses or similar authorizations, if any, required to be obtained or filed in connection with the operation or use of any and all Property of Borrower and each Subsidiary, including past (during Borrower’s ownership of such Properties and, to Borrower’s knowledge, during any prior owner’s ownership) or present treatment, storage, disposal or release of a hazardous substance or solid waste into the environment, have been duly obtained or filed, and Borrower and each Subsidiary are in compliance with the terms and conditions of all such notices, permits, licenses and similar authorizations;

(d) All hazardous substances, solid waste, and oil and gas exploration and production wastes, if any, generated at any and all Property of Borrower or any Subsidiary have in the past (during Borrower’s or any Subsidiary’s ownership of such Properties and, to Borrower’s knowledge, during any prior owner’s ownership) been transported, treated and disposed of in accordance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment, and, to the knowledge of Borrower, all such transport carriers and treatment and disposal facilities have been and

are operating in compliance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment, and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority in connection with any Environmental Laws;

(e) Borrower has taken all steps reasonably necessary to determine, and has determined, that no hazardous substances, solid waste, or oil and gas exploration and production wastes, have been disposed of or otherwise released and there has been no threatened release of any hazardous substances on or to any Property of Borrower or any Subsidiary except in compliance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment;

(f) To the extent applicable, all Property of Borrower and each Subsidiary currently satisfies all design, operation, and equipment requirements imposed by the OPA or scheduled as of the Effective Date to be imposed by the OPA during the term of this Agreement, and Borrower does not have any reason to believe that such Property, to the extent subject to OPA, will not be able to maintain compliance with the OPA requirements during the term of this Agreement; and

(g) Neither Borrower nor any Subsidiary has any known contingent liability in connection with any release or threatened release of any oil, hazardous substance or solid waste into the environment.

Section 7.17 **Compliance with the Law.** Neither Borrower nor any Subsidiary has violated any Governmental Requirement or failed to obtain any license, permit, franchise or other governmental authorization necessary for the ownership of any of its Properties or the conduct of its business, which violation or failure would have (in the event such violation or failure were asserted by any Person through appropriate action) a Material Adverse Effect. Except for such acts or failures to act as could not be reasonably expected to have a Material Adverse Effect, the Oil and Gas Properties (and properties unitized therewith) have been maintained, operated and developed in a good and workmanlike manner and in conformity with all applicable laws and all rules, regulations and orders of all duly constituted authorities having jurisdiction and in conformity with the provisions of all leases, subleases or other contracts comprising a part of the Hydrocarbon Interests and other contracts and agreements forming a part of the Oil and Gas Properties; specifically in this connection, except for those as could not be reasonably expected to have a Material Adverse Effect, (i) after the Effective Date, no Oil and Gas Property is subject to having allowable production reduced below the full and regular allowable (including the maximum permissible tolerance) because of any overproduction (whether or not the same was permissible at the time) prior to the Effective Date and (ii) none of the wells comprising a part of the Oil and Gas Properties (or properties unitized therewith) are deviated more than the maximum permitted by applicable laws, regulations, rules and orders, and such wells are, in fact, bottomed under and are producing from, and the well bores are wholly within, the Oil and Gas Properties (or in the case of wells located on properties unitized therewith, such unitized properties).

Section 7.18 **Insurance.** Schedule 7.18 attached hereto contains an accurate and complete description of all material policies of fire, liability, workmen's compensation and other forms of insurance owned or held by Borrower and each Subsidiary as of the Effective Date. As of the Effective Date, all such policies are in full force and effect, all premiums with respect thereto then due covering all periods up to and including the date of the closing have been paid, and no notice of cancellation or termination has been received with respect to any such policy. Such policies are sufficient for compliance with all requirements of law and of all agreements to which Borrower or any Subsidiary is a party; are valid, outstanding and enforceable policies; provide adequate insurance coverage in at least such amounts and against at least such risks (but including in any event public liability) as are usually insured against in the same general area by companies engaged in the same or a similar business for the assets and operations of Borrower and each Subsidiary; will remain in full force and effect through the respective dates set forth in Schedule 7.18 without the payment of additional premiums (other than with respect to customary periodic true-ups under certain policies, including but not limited to control of well and workmen's compensation policies); and will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement.

Section 7.19 **Hedging Agreements.** Schedule 7.19 sets forth, as of a recent date, a true and complete list of all Hedging Agreements (including commodity price swap agreements, forward agreements or contracts of sale which provide for prepayment for deferred shipment or delivery of oil, gas or other commodities) of Borrower and each Subsidiary, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value thereof, all credit support agreements relating thereto (including any margin required or supplied), and the counterparty to each such agreement.

Section 7.20 **Restriction on Liens.** Neither Borrower nor any of its Subsidiaries is a party to any agreement or arrangement (other than the Loan Documents), or subject to any order, judgment, writ or decree, which either restricts or purports to restrict its ability to grant Liens to Agent for the benefit of the Beneficiaries on or in respect of any Oil and Gas Property or any other material assets or Properties.

Section 7.21 **Material Agreements.** Set forth on Schedule 7.21 hereto is a complete and correct list of all material agreements, leases (other than Hydrocarbon Interests), indentures, purchase agreements, letters of credit, guarantees, joint venture agreements and other agreements and contracts in effect or to be

in effect on the Effective Date (other than Hedging Agreements), in each case providing for, evidencing, securing or otherwise relating to any Material Debt of Borrower or any of its Subsidiaries, and all obligations of Borrower or any of its Subsidiaries to issuers of surety or appeal bonds (other than surety or performance bonds of the type described in clause (i) of the proviso in the definition of "Debt") issued for the account of Borrower or any such Subsidiary in effect or to be in effect on the Effective Date.

Section 7.22 **Solvency.** Borrower and its Subsidiaries are Solvent.

Section 7.23 **Gas Imbalances.** Except as set forth on Schedule 7.23, on a net basis there are no gas imbalances, take or pay or other prepayments with respect to Borrower's or any Subsidiary's Borrowing Base Properties which would require Borrower or a Subsidiary to deliver, in the aggregate, two percent (2%) or more of the monthly production from Hydrocarbons produced from Borrower's or such Subsidiary's Borrowing Base Properties at some future time without then or thereafter receiving full payment therefor.

Section 7.24 **Anti-Terrorism; Anti-Money Laundering; FCPA.** Neither Parent, Borrower nor any of Borrower's Subsidiaries is in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC. Neither Borrower nor any of its Subsidiaries (a) is a Sanctioned Person, (b) has its assets located in a Sanctioned Country, or (c) derives revenues from investments in, or transactions with Sanctioned Persons. No proceeds of any Loan will be used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Country. Neither Borrower nor any of its Subsidiaries or, to their knowledge, any of their Related Parties (a) is an "enemy" or an "ally of the enemy" within the meaning of Section 2 of the Trading with the Enemy Act of the United States (50 U.S.C. App. §§1 et seq.), (b) is in violation of (i) the Trading with the Enemy Act, (ii) any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V) or any enabling legislation or executive order relating thereto or (iii) the PATRIOT Act (collectively, the "Anti-Terrorism Laws") or (c) is a Sanctioned Person or currently the subject or target of any Sanctions. No part of the proceeds of any Loan or Letter of Credit hereunder will be unlawfully used directly or indirectly to fund any operations in, finance any investments or activities in or make any payments to, a Sanctioned Person or a Sanctioned Country, or in any other manner that will result in any violation by any Person (including any Lender, Agent or the Issuing Bank) of any Anti-Terrorism Laws. Neither Borrower nor any of its Subsidiaries or, to their knowledge, any of their Related Parties has taken any action, directly or indirectly, that would result in a violation by such Persons of the United States Foreign Corrupt Practices Act of 1977, as amended and in effect from time to time or any other law, rule, or regulation of any jurisdiction applicable to Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

Section 7.25 **Affected Financial Institution. No Loan Party is an Affected Financial Institution.**

Section 7.26 **Hedge Activity.**

(a) **The rate, asset, liability or other notional item underlying any Hedging Agreement regarding an interest or currency rate, entered into or executed in connection with this Agreement is, or is directly related to, a financial term hereof;**

(b) **The aggregate notional amount of all Hedging Agreements in respect of interest rates entered into or executed by Borrower or any Subsidiary in connection with the financial terms of this Agreement, will not at any time exceed the aggregate principal amount outstanding hereunder, as such amounts may be determined or calculated contemporaneously from time to time during and throughout the term of this Agreement;**

50

(c) **the purpose of any Hedging Agreements in respect of any commodity entered into or executed in connection with this Agreement is to hedge commodity price risks incidental to Borrower's and its Subsidiaries' business and arising from potential changes in the price of such commodity; and**

(d) **each Hedging Agreement entered into or executed by Borrower or any of its Subsidiaries is for hedging purposes and is not for the purpose of speculation.**

For purposes of this Error! Reference source not found., "financial term" shall include the duration or term of the Loan , rate of interest on the Loan, and the currency or currencies in which the Loan is made and its principal amount.

ARTICLE VIII.

AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, so long as any of the Commitments are in effect and until payment in full of all Loans hereunder, all interest thereon and all other amounts payable by Borrower hereunder:

Section 8.01 **Reporting Requirements. Borrower shall deliver, or shall cause to be delivered, to Agent with sufficient copies of each for the Lenders:**

(a) **Annual Financial Statements. As soon as available and in any event within one hundred twenty (120) days after the end of each fiscal year of Parent, the audited consolidated statements of income, members' equity, changes in financial position and cash flow of Parent for such fiscal year, and the related consolidated balance sheets of Parent as at the end of such fiscal year, and setting forth in each case in comparative form the corresponding figures for the preceding fiscal year, and accompanied by the related report of independent public accountants of recognized regional or national standing or that are otherwise reasonably acceptable to Agent which report shall state that said financial statements fairly present in all material respects the consolidated financial condition and results of operations of Parent as at the end of, and for, such fiscal year and that such financial statements have been prepared in accordance with GAAP, except for such changes in such principles with which the independent public accountants shall have concurred and such report shall not contain a "going concern" or like qualification or exception or any limitation or exception as to the scope of such audit.**

(b) **Quarterly Financial Statements. As soon as available and in any event within sixty (60) days after the end of each fiscal quarter of Parent, consolidated statements of income, members' equity, changes in financial position and cash flows of Parent for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related**

consolidated balance sheets as at the end of such period, and setting forth in each case in comparative form the corresponding figures for the corresponding period in the preceding fiscal year, accompanied by the certificate of a Responsible Officer, which certificate shall state that said financial statements fairly present in all material respects the consolidated financial condition and results of operations of Parent in accordance with GAAP, as at the end of, and for, such period (subject to normal year-end audit adjustments and the absence of footnotes).

(c) **Compliance Certificate.** At the time each set of financial statements pursuant to Section 8.01(a) or (b) above is furnished, a Compliance Certificate executed by a Responsible Officer, which among other things, (i) certifies as to the matters set forth therein and states that no Default exists (or, if any Default exists, describing the same in reasonable detail), and (ii) sets forth in reasonable detail the computations necessary to determine whether Borrower is in compliance with Section 9.11 as of the end of the applicable fiscal quarter or fiscal year.

51

(d) **Hedging Agreements, Gas Imbalances, and Property Reports.** At the time each set of financial statements pursuant to Section 8.01(a) or (b) above is furnished, a report certified as true and complete in all material respects by a Responsible Officer, in form and substance reasonably satisfactory to Agent, setting forth as of the last Business Day of such reporting period a true and complete list of all Hedging Agreements (including commodity price swap agreements, forward agreements or contracts of sale which provide for prepayment for deferred shipment or delivery of oil, gas or other commodities) of Borrower and each Subsidiary, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value therefor, any new credit support agreements relating thereto not listed on Schedule 7.19, any margin required or supplied under any credit support document, and the counterparty to each such agreement.

(e) **Production Reports, Etc.** Upon request by Agent, as soon as available and to the extent available to Borrower from the operators of the Oil and Gas Properties but in any event within sixty (60) days following the end of each calendar quarter, Borrower shall furnish to Agent reports certified as true and complete in all material respects by a Responsible Officer, regarding the most recently available monthly production and lease operating statements for its Oil and Gas Properties, in form and substance satisfactory to Agent, which reports shall include (i) quantities or volume of production, revenue, realized product prices, operating expenses, taxes, capital expenditures and lease operating costs which have accrued to Borrower's accounts in such period, (ii) the name, address, telephone and facsimile numbers, e-mail address (if available) and contact individual for each Purchaser, and (iii) such other information with respect thereto as Agent or the Lenders may reasonably require.

(f) **Annual Budget.** As soon as available and in any event within ninety (90) days after the end of each fiscal year of Borrower, a copy of the Loan Parties' most recently approved budget and financial projections for such fiscal year.

(g) **Notices Under Other Loan Agreements.** Promptly after the furnishing thereof, copies of any statement, report or notice furnished to any Person pursuant to the terms of any Hedging Agreement, indenture, loan or credit or other similar agreement evidencing Material Debt, other than this Agreement and not otherwise required to be furnished to the Lenders pursuant to any other provision of this Section 8.01.

(h) **Material Agreements.** Upon request, Borrower shall deliver to Agent and the Lenders a complete and correct list of all material agreements and other instruments of Borrower and its Restricted Subsidiaries relating to the purchase, transportation by pipeline, gas processing, marketing, sale and supply of natural gas and other Hydrocarbons, but in any event, any such agreement or other instrument that will account for more than ten percent (10%) of the sales of Borrower and its Subsidiaries during Borrower's current fiscal year. Upon request, Borrower shall deliver to Agent and the Lenders a complete and correct copy of all such material credit agreements, indentures, purchase and sale agreements, letters of credit, guarantees, joint venture agreements, purchase agreements or other contracts or instruments described in Section 7.21, including any modifications or supplements thereto, as in effect on the Effective Date.

(i) **Other Matters.** From time to time such other information regarding the business, affairs or financial condition of Borrower or any Subsidiary (including any Plan or Multiemployer Plan and any reports or other information required to be filed under ERISA) as any Lender or Agent may reasonably request.

(j) **Patriot Act; Beneficial Ownership Regulation.** Promptly upon request, all documentation and other information required by regulatory authorities under applicable “know your

customer” and anti-money laundering rules and regulations, including the USA Patriot Act and Beneficial Ownership Regulation.

Section 8.02 **Notices of Material Events.** Borrower will furnish to Agent for each Lender prompt written notice of the following:

- (a) the occurrence of any Default;
- (b) the filing or commencement of, or the threat in writing of, any action, suit, proceeding, investigation or arbitration by or before any arbitrator or Governmental Authority against or affecting Borrower or any of its Subsidiaries not previously disclosed in writing to the Lenders or any material adverse development in any action, suit, proceeding, investigation or arbitration (whether or not previously disclosed to the Lenders) that, in either case, if adversely determined, could reasonably be expected to result in a Material Adverse Effect; and
- (c) the occurrence of any Material Adverse Effect.

Each notice delivered under this Section 8.02 shall be accompanied by a statement of a Responsible Officer setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 8.03 **Maintenance, Etc.**

(a) **Generally.** Borrower shall and shall cause each Subsidiary to: preserve and maintain its corporate existence and all of its material rights, privileges, licenses, franchises and other rights necessary to conduct its business; keep books of record and account in which full, true and correct entries will be made of all dealings or transactions in relation to its business and activities; comply with all Governmental Requirements if failure to comply with such requirements will have a Material Adverse Effect; pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its Property prior to the date on which penalties attach thereto, except (i) for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained, or (ii) to the extent the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect or result in the seizure or levy of any material Property of any Loan Party; upon reasonable notice, permit representatives of Agent or any Lender, during normal business hours, to examine, copy and make extracts from its books and records, to inspect its Properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested (including as to frequency of such requests) by such Lender or Agent (as the case may be).

(b) **Insurance.** Borrower shall and shall cause each Subsidiary to keep, or cause to be kept, insured by financially sound and reputable insurers (having a minimum A.M. Best rating of A, size category VII) all Property of a character usually insured by Persons engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts customarily insured against by such Persons and carry such other insurance as is usually carried by such Persons, or as Agent may reasonably request. Borrower shall promptly obtain endorsements to such insurance policies naming “Frost Bank, as Agent for the

Beneficiaries” as an additional insured, assignee and loss payee (which shall include, as applicable, identification as mortgagee), as applicable, on each insurance policy required to be maintained pursuant to this Section 8.03(b) and (to the extent the insurer will agree to do so) containing provisions that such policies will not be canceled without thirty (30) days prior written notice (or 10 days prior notice for non-payment of premiums) having been given by the insurance company to Agent; provided, however Agent may consent to deviations from the requirements of this sentence in its sole

discretion. Borrower will not, and will not permit any Subsidiary to, bring or keep any article on any business location of any Loan Party, or cause or allow any condition to exist, if the presence of such article or the occurrence of such condition could reasonably cause the invalidation of any insurance required by this Section 8.03(b), or would otherwise be prohibited by the terms thereof. In the event Borrower fails to provide Agent with evidence of the insurance coverage required by this Agreement, Agent may purchase insurance at Borrower’s expense to protect Agent’s interests in the Collateral. This insurance may, but need not, protect Borrower’s interests. The coverage purchased by Agent may not pay any claim made by Borrower or any claim that is made against Borrower in connection with the Collateral. Borrower may later cancel any insurance purchased by Agent, but only after providing Agent with evidence that Borrower has obtained insurance as required by this Agreement. If Agent purchases insurance for the Collateral, to the fullest extent provided by law Borrower will be responsible for the costs of that insurance, including interest and other charges imposed by Agent in connection with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance. The costs of the insurance may be added to the Obligations. The costs of the insurance may be more than the cost of insurance Borrower is able to obtain on its own.

(c) Proof of Insurance. Contemporaneously with the delivery of the financial statements required by Section 8.01(a) to be delivered for each year, Borrower will furnish or cause to be furnished to Agent and the Lenders a certificate of insurance coverage from the insurer with respect to the insurance required by Section 8.03(b) in form reasonably satisfactory to Agent and, if requested, will furnish Agent and the Lenders copies of the applicable policies.

(d) Oil and Gas Properties. Borrower will and will cause each Subsidiary to, at its own expense, do or cause to be done all things reasonably necessary to preserve and keep in good repair, working order and efficiency all of its Oil and Gas Properties and other material Properties including all equipment, machinery and facilities, and from time to time will make all the reasonably necessary repairs, renewals and replacements so that at all times the state and condition of its Oil and Gas Properties and other material Properties will be fully preserved and maintained, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. Borrower will and will cause each Subsidiary to promptly: (i) pay and discharge, or make reasonable and customary efforts to cause to be paid and discharged, all delay rentals, royalties, expenses and indebtedness accruing under the leases or other agreements affecting or pertaining to its Oil and Gas Properties, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, (ii) perform or make reasonable and customary efforts to cause to be performed, in accordance with customary industry standards, the obligations required by each and all of the assignments, deeds, leases, subleases, contracts and agreements affecting its interests in its Oil and Gas Properties and other material Properties, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, and (iii) do all other things necessary to keep unimpaired, except for Permitted Liens, its rights with respect to its Oil and Gas Properties and other material Properties and prevent any forfeiture thereof or a default thereunder, except for dispositions not prohibited by Section 9.11(a) and otherwise where the failure to do so could not reasonably be expected to have a Material Adverse Effect. Borrower will and will cause each Subsidiary to operate its Oil and Gas Properties and other material Properties or cause or make reasonable and customary efforts to cause such Oil and Gas Properties and other material Properties to be operated in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance in all material respects with all Governmental Requirements, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. Upon the reasonable request of Agent, Borrower shall, and shall cause each Subsidiary and Affiliate to, subordinate in favor of Agent for the benefit of the Lenders any contractual or statutory Liens held by Borrower or such Subsidiary or Affiliate as an operator (including contract operator) or as co-working interest owner under joint operating agreements or similar contractual arrangements with respect

to Borrower's or such Subsidiary's or Affiliate's share of the expense of exploration, development and operation of oil, gas and mineral leasehold

or fee interests jointly owned with others and operated by Borrower or any Subsidiary or any Affiliate. Notwithstanding the foregoing, with respect to any Oil and Gas Properties of which Borrower or one of its Subsidiaries is not an operator, Borrower's obligations under this Section 8.03 with respect to such non-operated Oil and Gas Properties shall be to use commercially reasonable efforts to cause the operator to use the reasonably prudent standard of care typical in the industry in the operation and maintenance of its Oil and Gas Properties to comply with this Section 8.03.

Section 8.04 Environmental Matters.

(a) **Establishment of Procedures.** Borrower will and will cause each Subsidiary to establish and implement such procedures as may be reasonably necessary to continuously determine and assure that: (i) all Property of Borrower and its Subsidiaries and the operations conducted thereon and other activities of Borrower and its Subsidiaries are in compliance with and materially do not violate the requirements of any Environmental Laws, (ii) no oil, hazardous substances or solid wastes are disposed of or otherwise released on or to any Property owned by any such party except in compliance with Environmental Laws, (iii) no hazardous substance will be released on or to any such Property in a quantity equal to or exceeding that quantity which requires reporting pursuant to Section 103 of CERCLA, and (iv) no oil, oil and gas exploration and production wastes or hazardous substance is released on or to any such Property so as to pose an imminent and substantial endangerment to public health or welfare or the environment. Notwithstanding the foregoing, with respect to any Oil and Gas Properties of which Borrower or one of its Subsidiaries is not an operator, Borrower's obligations under this Section 8.04 with respect to such non-operated Oil and Gas Properties shall be to use commercially reasonable efforts to cause the operator to use the reasonably prudent standard of care typical in the industry in the operation and maintenance of its Oil and Gas Properties to comply with this Section 8.04.

(b) **Notice of Action.** Borrower will promptly notify Agent and the Lenders in writing of any threatened action, investigation or inquiry by any Governmental Authority of which Borrower has knowledge in connection with any Environmental Laws, excluding routine testing and corrective action, if Borrower could reasonably anticipate that such action will result in liability (whether individually or in the aggregate) in excess of the Threshold Amount not fully covered by insurance, subject to normal deductibles.

(c) **Future Acquisitions.** In connection with any future acquisitions of Oil and Gas Properties or other material Properties by any Loan Party, other than an acquisition of additional interests in Oil and Gas Properties in which any Loan Party previously held an interest, to the extent any Loan Party obtains or is provided with same, Borrower will, and will cause each other Loan Party to, promptly following any Loan Party's obtaining or being provided with the same, deliver to Agent such final and non-privileged material environmental reports of such Oil and Gas Properties as are reasonably requested by Agent, the delivery of which will not violate any applicable confidentiality agreement entered into in good faith with an unaffiliated third party.

Section 8.05 Further Assurances. Borrower will and will cause each Subsidiary to cure promptly any defects in the creation and issuance of the Notes and the execution and delivery of this Agreement and any other Loan Document. Borrower, at its expense, will and will cause each Subsidiary to promptly execute and deliver to Agent upon request all such other documents, agreements and instruments to comply with or accomplish the covenants and agreements of Borrower or any Subsidiary, as the case may be, in this Agreement and any other Loan Document, or to further evidence and more fully describe the Collateral intended as security for the Obligations or to correct any omissions in the Loan Documents, or to state more fully the security obligations set out herein or in any of the Loan Documents, or to perfect, protect or preserve any Liens created pursuant to any of the Security Documents, or to make any recordings, to file any notices or obtain any consents, all as may be necessary or appropriate in connection therewith.

Section 8.06 Performance of Obligations. Borrower will pay the Notes according to the reading, tenor and effect thereof; and Borrower will and will cause each Subsidiary to do and perform every act and discharge all of the obligations to be performed and discharged by them under the Loan Documents, at the time or times and in the manner specified.

Section 8.07 Engineering Reports.

(a) **Scheduled Redetermination.** On or before April 1 and October 1 of each year, commencing October 1, 2023, Borrower shall furnish to Agent and the Lenders a Reserve Report evaluating the Proved Oil and Gas Properties of Borrower and its Subsidiaries as of the immediately preceding January 1 (in the case of the Reserve Report due April 1) and July 1 (in the case of the Reserve Report due October 1), respectively. The Reserve Report as of January 1 of each year shall be prepared by DeGolyer and MacNaughton, or such other petroleum engineering firm approved by Agent, and the Reserve Report as of July 1 of each year shall be prepared either by DeGolyer and MacNaughton or such other petroleum engineering firm approved by Agent or by Borrower's internal engineering staff in accordance with the procedures used in the immediately preceding January 1 Reserve Report together with a certificate of the chief engineer of Borrower certifying that such Reserve Report is true and accurate and prepared in accordance with the procedures used in the immediately preceding January 1 Reserve Report.

(b) **Unscheduled Redetermination.** In the event of an unscheduled redetermination, Borrower shall furnish to Agent and the Lenders a Reserve Report prepared by or under the supervision of the chief engineer of Borrower who shall certify such Reserve Report to be true and accurate and to have been prepared in accordance with the procedures used in the immediately preceding Reserve Report. For any Unscheduled Redetermination requested by Agent (or Agent at the direction of the Supermajority Lenders) or Borrower pursuant to Section 2.08(e), Borrower shall provide as soon as possible, but in any event no later than thirty (30) days following the receipt of the request by Agent, such Reserve Report with an "as of" date not more than sixty (60) days prior to the anticipated date of redetermination or as otherwise required by the Supermajority Lenders or Agent.

Section 8.08 Title Information Delivery.

(a) **Title Information.** On or before the delivery to Agent and the Lenders of each Reserve Report required by Section 8.07(a), Borrower will deliver title information in form and substance reasonably acceptable to Agent covering enough of the Mortgaged Properties evaluated by such Reserve Report that were not included in the immediately preceding Reserve Report, so that Agent shall have received together with title information previously delivered to Agent, satisfactory title information on at least eighty percent (80%) of the engineered value of the Borrowing Base Properties.

(b) **Cure of Title Defects.** Upon notice by Agent, Borrower shall (i) cure any title defects or exceptions which are not Excepted Liens raised by such information, (ii) substitute acceptable Mortgaged Properties with no title defects or exceptions, except for Excepted Liens covering Mortgaged Properties of an equivalent value, or (iii) deliver title information in form and substance acceptable to Agent so that Agent shall have received, together with title information previously delivered to Agent, satisfactory title information on at least eighty percent (80%) of the engineered value of the Borrowing Base Properties.

(c) **Failure to Cure Title Defects.** If Borrower is unable to cure any title defect or Borrower does not comply with the requirements to provide acceptable title information covering at least eighty percent (80%) of the engineered value of the Borrowing Base Properties (including in connection with Borrower's obligations under Section 8.08(d) below), such failure shall not be a Default or an Event of Default, but instead Agent and the Supermajority Lenders shall have the right to exercise the following remedy in their sole discretion from time to time, and any failure to so exercise this remedy at any time

shall not be a waiver as to future exercise of the remedy by Agent or the Lenders. To the extent that Agent or the Supermajority Lenders are not satisfied with title to any Mortgaged Property, such unacceptable Mortgaged Property shall not count towards the minimum eighty percent (80%) requirement, and Agent may send a notice to Borrower and the Lenders that the then outstanding Borrowing Base shall be reduced by an amount as determined by Supermajority Lenders to cause Borrower to be in compliance with the requirement to provide acceptable title information on at least eighty percent (80%) of the engineered value of the Borrowing Base Properties. This new Borrowing Base shall become effective immediately after receipt of such notice and shall not constitute a special redetermination under Section 2.08(e).

Section 8.09 Collateral.

(a) **Collateral.** The Obligations shall be secured by a perfected first priority Lien (subject only to Excepted Liens) granted to Agent for the benefit of the Beneficiaries in (i) all of Borrower's and each Subsidiary's rights, titles and interests, now owned or hereafter acquired, in any Oil and Gas Properties (and all contracts and any other rights related thereto), other than Excluded Property so as to cover at least eighty percent (80%) of the engineered value of the Borrowing Base Properties on the Effective Date and at all times thereafter, (ii) all personal Property of Borrower and each Guarantor other than Excluded Property and (iii) all rights, titles and interests to all Equity Interests owned by Borrower and each Subsidiary in each other Subsidiary.

(b) **Lien in Acquired Oil and Gas Properties.** Should Borrower or any Subsidiary acquire any additional Oil and Gas Properties or additional interests in its existing Oil and Gas Properties, Borrower or such Subsidiary will grant to Agent as security for the Obligations a first priority Lien interest (subject only to Excepted Liens) on such of Borrower's or such Subsidiary's interest in such Oil and Gas Properties not already subject to a Lien of the Security Documents as may be necessary to comply with the requirements of subsection (a) of this Section, which Lien will be created and perfected by and in accordance with the provisions of mortgages, deeds of trust, security agreements and financing statements, or other Security Documents, all in form and substance satisfactory to Agent in its reasonable discretion and in sufficient executed (and acknowledged where necessary or appropriate) counterparts for recording purposes.

(c) **Title Information.** Concurrently with the granting of the Lien or other action referred to in subsection (b) of this Section, Borrower will provide, or cause to be provided, to Agent title information in form and substance satisfactory to Agent in its reasonable discretion with respect to Borrower's or such Subsidiary's interests in its Borrowing Base Properties.

(d) **New Subsidiaries Collateral.** If, at any time, a new Subsidiary is acquired or created pursuant to Section 8.15, Borrower shall, and, as applicable, shall cause any such new Subsidiary to, promptly after such acquisition or creation, (x) execute and deliver a Guaranty Agreement or a joinder to a Guaranty Agreement, (y) pledge all of the Equity Interests in such new Subsidiary (including delivery of original certificates evidencing the Equity Interests in such new Subsidiary, together with an appropriate undated transfer power for each certificate duly executed in blank by the registered owner thereof, if applicable) and (z) execute and deliver such other Loan Documents (including Security Documents granting to Agent a valid, first priority (subject only to Permitted Liens) perfected Lien in the Properties of such new Subsidiary), certificates and legal opinions as Agent shall reasonably request.

(e) **Legal Opinions.** Promptly after the filing of any new Security Document in any state, upon the reasonable request of Agent, Borrower will provide to Agent an opinion addressed to Agent for the benefit of the Lenders in form and substance satisfactory to Agent in its reasonable discretion from counsel acceptable to Agent, stating that the Security Document is valid, binding and enforceable in

accordance with its terms in legally sufficient form for such jurisdiction, and the means by which such Security Document will perfect the Lien created thereby.

Section 8.10 ERISA Information and Compliance. Borrower will promptly furnish and will cause the Subsidiaries to promptly furnish to Agent with sufficient copies to the Lenders (i) upon becoming aware of the occurrence of any ERISA Event, in connection with any Plan or any trust created thereunder, a written notice signed by a Responsible Officer specifying the nature thereof, what action Borrower, the Subsidiary or the ERISA Affiliate is taking or proposes to take with respect thereto, and, when known, any action taken or proposed by the Internal Revenue Service, the Department of Labor or the PBGC with respect thereto, and (ii) upon receipt thereof, copies of any notice of the PBGC's intention to terminate or to have a trustee appointed to administer any Plan. Except as would not reasonably be expected to have a Material Adverse Effect, with respect to each Plan (other than a Multiemployer Plan), Borrower will, and will cause each Subsidiary and ERISA Affiliate to, (i) satisfy in full and in a timely manner, without incurring any late payment or underpayment charge or penalty and without giving rise to any lien, all of the contribution and funding requirements of Section 412 of the Code (determined without regard to subsections (d), (e), (f) and (k) thereof) and of Section 302 of ERISA (determined without regard to Sections 303, 304 and 306 of ERISA), and (ii) pay, or cause to be paid, to the PBGC in a timely manner, without incurring any late payment or underpayment charge or penalty, all premiums required pursuant to Sections 4006 and 4007 of ERISA.

Section 8.11 Hedging Agreements. At all such times that the Debt to EBITDAX Ratio is greater than 1.0 to 1.0 or the Borrowing Base Utilization is greater than fifty percent (50%), then no later than ten (10) Business Days after either of such events shall occur, Borrower shall have entered into one or more Hedging Agreements, subject to the limitations for Hedging Agreements under Section 9.18 of this Agreement, hedging at least fifty percent (50%) of Borrower's and its Subsidiaries' reasonably anticipated production of oil and natural gas from PDP Reserves for a rolling twenty-four (24) month period. Notwithstanding anything to the contrary in this Section 8.11, (i) Borrower shall not be required to enter into any Hedging Agreements for a period extending more than twelve months past the Maturity Date.

Section 8.12 Accounts.

(a) So long as Frost Bank serves as Agent under this Agreement and is able to provide usual and customary treasury management services to the satisfaction of Borrower in its reasonable discretion, Borrower and its Subsidiaries will at all times maintain its principal deposit account relationship with Frost Bank, other than any Excluded Accounts.

(b) Within sixty (60) days after the request of Agent (or, in either case, such later date as Agent may agree to in its sole discretion), Borrower will and will cause each Subsidiary to execute a Deposit Account Control Agreement for each deposit account of Borrower and its Subsidiaries (other than any deposit account that is an Excluded Account).

(c) Within sixty (60) days after the request of Agent (or, in either case, such later date as Agent may agree to in its sole discretion), Borrower will and will cause each Subsidiary to obtain an executed Investment Account Control Agreement from each broker (if such broker is not a Lender or an Affiliate of a Lender) with respect to each Investment Account.

Section 8.13 Keepwell (Commodity Exchange Act). Each Qualified ECP Guarantor hereby jointly and severally absolutely, unconditionally and irrevocably undertakes to provide such funds or other support as may be needed from time to time by each other Guarantor to honor all of its obligations under the Guaranty Agreement in respect of Swap Obligations (provided, however, that each Qualified ECP Guarantor shall only be liable under this Section 8.13 for the maximum amount of such liability that can be hereby

incurred without rendering its obligations under this Section 8.13, as it relates to such other Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount). The obligations of each Qualified ECP Guarantor under this Section 8.13 shall remain in full force and effect until discharged in accordance with this Agreement. Each Qualified ECP Guarantor intends that this Section 8.12 constitute, and this Section 8.12 shall be deemed to constitute, a “keepwell, support, or other agreement” for the benefit of each other Guarantor for all purposes of Section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

Section 8.14 **FCPA; Etc.** Borrower will maintain in effect and enforce policies and procedures designed to promote and achieve compliance by Borrower, its Subsidiaries and their respective directors, officers, employees and agents with applicable Sanctions, the United States Foreign Corrupt Practices Act of 1977, as amended and in effect from time to time, and all other laws, rules, and regulations of any jurisdiction applicable to Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

Section 8.15 **Subsidiaries.** Borrower and its Subsidiaries may create or acquire additional Subsidiaries; provided that (a) each Person organized under the Laws of the United States (or any state thereof) that becomes a Subsidiary after the Effective Date (whether as a result of an acquisition, creation, or otherwise) shall execute and deliver to Agent such documents as are required pursuant to Section 8.09(d) and (b) no Default will arise after giving pro forma effect to the creation, acquisition, or addition of such Subsidiary.

ARTICLE IX. NEGATIVE COVENANTS

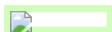
Borrower covenants and agrees that, so long as any of the Commitments are in effect and until payment in full of the Loans hereunder, all interest thereon and all other amounts payable by Borrower hereunder, without the prior written consent of the Lenders:

Section 9.01 **Debt.** Neither Borrower nor any Subsidiary will incur, create, assume or permit to exist any Debt, except:

- (a) the Notes or other Obligations or any guaranty of or suretyship arrangement for the Notes or other Obligations.
- (b) Debt associated with bonds or surety obligations required by Governmental Requirements in connection with the operation of the Oil and Gas Properties.
- (c) Debt under capital leases or that constitutes purchase money Debt, provided that the aggregate principal amount of all Debt described in this Section 9.01(c) plus all Debt described in Section 9.01(g) at any one time outstanding shall not exceed, in the aggregate, the Threshold Amount.
- (d) intercompany Debt between or among the Loan Parties, provided that such Debt is subordinated to the Obligations as and to the extent provided in the Guaranty Agreement.
- (e) Debt constituting a guaranty by any Loan Party of other Debt permitted to be incurred under this Section 9.01.
- (f) Debt disclosed on Schedule 9.01.

(g) other Debt not otherwise permitted under this Section 9.01 in an aggregate principal amount not to exceed the Threshold Amount at the time any such Debt is incurred (after giving effect to the incurrence of such Debt).

- (h) Debt associated with Hedging Agreements permitted hereunder.



GraLiens. Neither Borrower nor any Subsidiary will create, incur, assume or permit to exist any Lien on any of its Properties (now owned or hereafter acquired), except:

- (a) Liens securing the payment of any Obligations.

- (b) Excepted Liens.

- (c) Liens securing capital leases or purchase money Debt allowed under Section 9.01(c), but only on the Property under lease or acquired with such Debt.

- (d) Liens disclosed on Schedule 9.02.

- (e) Liens securing Debt permitted by Section 9.01(g), but only on a Property not constituting Oil and Gas Properties or Equity Interests in Subsidiaries.

Section 9.03 Investments, Loans and Advances. Neither Borrower nor any Subsidiary will make or permit to remain outstanding any loans or advances to or investments in any Person, except that the foregoing restriction shall not apply to:

- (a) accounts receivable arising in the ordinary course of business.

- (b) investments disclosed to the Lenders in Schedule 9.03.

- (c) investments in Cash Equivalents.

- (d) investments by Borrower and its Subsidiaries in direct ownership interests in additional Oil and Gas Properties.

- (e) investments in stock, obligations or securities received in settlement of debts arising from investments permitted under this Section 9.03 or from accounts receivable arising in the ordinary course of business, which investments are obtained by any Loan Party as a result of a bankruptcy or other insolvency proceeding of, or difficulties in collecting from, the obligor in respect of such obligations, provided that Borrower shall give Agent prompt written notice in the event that the aggregate amount of all investments held at any one time under this Section 9.03(e) exceeds the Threshold Amount.

- (f) investments constituting Debt permitted under Section 9.01.

- (g) investments made by Borrower in or to Subsidiaries or made by any Subsidiary in or to Borrower or any other Subsidiary, subject to compliance with Section 8.09(d).

- (h) other investments that do not exceed in the aggregate, the Threshold Amount at the time any such investment is made (after giving effect to the incurrence of such investment).

Section 9.04 Dividends, Distributions and Redemptions. Neither Borrower nor any of its Subsidiaries will declare or pay any dividend, purchase, redeem or otherwise acquire for value any of its

Equity Interests now or hereafter outstanding, return any capital to its partners, shareholders or other holders of Equity Interests or make any distribution of its assets to its partners, shareholders or other holders of Equity Interests (collectively, "Restricted Payments") except:

- (a) Any Subsidiary of Borrower may declare and pay or make Restricted Payments to Borrower or any Guarantor.
- (b) So long as Borrower is treated as a pass-through entity for federal income tax purposes, Borrower may make Permitted Tax Distributions to Parent quarterly, based on Borrower's estimated taxable income for each applicable quarterly period, and annually, based on Borrower's annual federal income tax filing, provided that no Borrowing Base Deficiency or Event of Default is then existing or will exist after giving effect to such distribution.
- (c) Borrower may make cash distributions to the Parent not to exceed \$6,000,000 in the aggregate in any calendar year, so long as (i) before and after giving effect to such distributions, no Default exists, (ii) no Borrowing Base Deficiency exists, (iii) the Debt to EBITDAX Ratio is not greater than 2.5 to 1.0 and (iv) Availability shall be equal to or greater than ten percent (10%) of the Borrowing Base then in effect.
- (d) Borrower may make cash distributions to the Parent to fund stock buybacks not exceeding \$15,000,00 in the aggregate in any calendar year, so long as (i) before and after giving effect to such distributions, no Default exists, (ii) no Borrowing Base Deficiency exists, (iii) the Debt to EBITDAX Ratio is not greater than 1.5 to 1.0 and (iv) Availability shall be equal to or greater than twenty-five percent (25%) of the Borrowing Base then in effect.

Section 9.05 Sales and Leasebacks. Neither Borrower nor any Subsidiary will enter into any arrangement, directly or indirectly, with any Person whereby Borrower or any Subsidiary shall sell or transfer any of its Property, whether now owned or hereafter acquired, and whereby Borrower or any Subsidiary shall then or thereafter rent or lease as lessee such Property or any part thereof or other Property which Borrower or any Subsidiary intends to use for substantially the same purpose or purposes as the Property sold or transferred.

Section 9.06 Nature of Business, Constituent Documents, and Accounting. Borrower shall not and shall not permit any Subsidiary to allow:

- (a) any material change to be made in the character of its business as an independent oil and gas exploration and production company owning and operating Oil and Gas Properties located in the United States of America.
- (b) any material amendment or restatement of their respective Constituent Documents in any respect which could reasonably be considered to be adverse to the interests of the Lenders; provided, for the avoidance of doubt, any amendment or restatement of Borrower's Constituent Documents will not be deemed adverse to the interests of the Lenders solely due to the implementation or modification of any fee described in Section 9.14(d).
- (c) any change to its fiscal year or any change (i) in accounting treatment or reporting practices, except as limited required by Debtor Relief Laws, GAAP and disclosed to Agent and Lenders, or (ii) in tax reporting treatment, except as required by Law and disclosed to Agent and Lenders.

SECTION

10. Section

9.07 Mergers, Etc. Neither Borrower nor any Subsidiary will merge into or with or consolidate with any other Person, or sell, lease or otherwise dispose of (whether in one transaction or in a

series of transactions) all or substantially all of its Property or assets to any other Person, except (a) Borrower may merge into or consolidate with any other Person **NOTICE OF FINAL AGREEMENT** provided that Borrower is the surviving entity and no Default exists or would result therefrom and (b) Borrower and any Subsidiary may merge or consolidate with, or sell, lease or otherwise dispose of all or substantially all of its property to, Borrower.

Section 9.08 **Proceeds of Notes; Letters of Credit.** Borrower will not permit the proceeds of the Notes or Letters of Credit to be used for any purpose other than those permitted by Section 7.07. Neither Borrower nor any Person acting on behalf of Borrower has taken or will take any action which might cause any of the Loan Documents to violate Regulation T, U or X or any other regulation of the Board of Governors of the Federal Reserve System or to violate Section 7 of the Securities Exchange Act of 1934 or any rule or regulation thereunder, in each case as now in effect or as the same may hereinafter be in effect.

Section 9.09 **ERISA Compliance.** Except as would not reasonably be expected to have a Material Adverse Effect, Borrower will not at any time:

(a) Engage in, or permit any Subsidiary or ERISA Affiliate to engage in, any transaction in connection with which Borrower, any Subsidiary or any ERISA Affiliate could be subjected to either a civil penalty assessed pursuant to Section 502(c), (i) or (1) of ERISA or a tax imposed by Chapter 43 of Subtitle D of the Code;

(b) Terminate, or permit any Subsidiary or ERISA Affiliate to terminate, any Plan in a manner, or take any other action with respect to any Plan, which could result in any liability to Borrower, any Subsidiary or any ERISA Affiliate to the PBGC;

(c) Fail to make, or permit any Subsidiary or ERISA Affiliate to fail to make, full payment when due of all amounts which, under the provisions of any Plan, agreement relating thereto or applicable law, Borrower, a Subsidiary or any ERISA Affiliate is required to pay as contributions thereto;

(d) Permit to exist, or allow any Subsidiary or ERISA Affiliate to permit to exist, any accumulated funding deficiency within the meaning of Section 302 of ERISA or Section 412 of the Code, whether or not waived, with respect to any Plan;

(e) Permit, or allow any Subsidiary or ERISA Affiliate to permit, the actuarial present value of the benefit liabilities under any Plan maintained by Borrower, any Subsidiary or any ERISA Affiliate which is regulated under Title IV of ERISA to exceed the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities. The term "actuarial present value of the benefit liabilities" has the meaning specified in Section 4041 of ERISA;

(f) Contribute to or assume an obligation to contribute to, or permit any Subsidiary or ERISA Affiliate to contribute to or assume an obligation to contribute to, any Multiemployer Plan;

(g) Acquire, or permit any Subsidiary or ERISA Affiliate to acquire, an interest in any Person that causes such Person to become an ERISA Affiliate with respect to Borrower, any Subsidiary or any ERISA Affiliate if such Person sponsors, maintains or contributes to, or at any time in the six (6)-year period preceding such acquisition has sponsored, maintained, or contributed to, (1) any Multiemployer Plan, or (2) any other Plan that is subject to Title IV of ERISA under which the actuarial present value of the benefit liabilities under such Plan exceeds the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities;

(h) Incur, or permit any Subsidiary or ERISA Affiliate to incur, a liability to or on account of a Plan under Sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA; or

(i) **Contribute to or assume an obligation to contribute to, or permit any Subsidiary or ERISA Affiliate to contribute to or assume an obligation to contribute to, any employee welfare benefit plan, as defined in Section 3(1) of ERISA, including any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by such entities in their sole discretion at any time without any material liability.**

Section 9.10 Sale or Discount of Receivables. Neither Borrower nor any Subsidiary will discount or sell (with or without recourse) any of its notes receivable or accounts receivable.

Section 9.11 Financial Covenants.

(a) **Current Ratio. Borrower will not permit, as of the last day of any fiscal quarter, commencing with the fiscal quarter ending June 30, 2023, Parent's Current Ratio to be less than 1.0 to 1.0.**

(b) **Debt to EBITDAX Ratio. Borrower will not permit, as of the last day of any fiscal quarter, commencing with the fiscal quarter ending June 30, 2023, Parent's Debt to EBITDAX Ratio to be less than 2.5 to 1.**

Section 9.12 Sale of Properties. Borrower will not, and will not permit any Subsidiary to Transfer any Oil and Gas Property or any interest in any Oil and Gas Property, except for (i) Transfers in the ordinary course of business, between any two (2) successive Borrowing Base Redeterminations, of Oil and Gas Properties which, in the aggregate, shall not exceed ten percent (10%) of the Borrowing Base then in effect (or of all of the Equity Interests in any Subsidiary owning Oil and Gas Properties that do not exceed such limits), provided that (A) no Borrowing Base Deficiency or Event of Default exists or would result therefrom, and (B) substantially all of the consideration received in respect of such Transfer shall be cash or Cash Equivalents, the release or assumption of liabilities related to any Oil and Gas Properties so Transferred, new Oil and Gas Properties acquired, or investments permitted under Section 9.03, (ii) sales of hydrocarbons in the ordinary course of business, (iii) sales of Oil and Gas Properties not given value in the most recent determination of the Borrowing Base or (iv) Transfers of other Property (excluding Oil and Gas Properties) that are not permitted by the preceding clause (i), provided that the aggregate fair market value of such other Property does not exceed the Threshold Amount in any fiscal year of Borrower. Borrower shall provide Agent with at least ten (10) Business Days prior written notice of any proposed Transfer that is subject to this Section 9.11(a) (or such shorter notice with respect to any such Transfer as Agent may agree to in its sole discretion).

Section 9.13 Environmental Matters. Neither Borrower nor any Subsidiary will cause or permit any of its Property to be in violation of, or do anything or permit anything to be done which will subject any such Property to any remedial obligations under any Environmental Laws, assuming disclosure to the applicable Governmental Authority of all relevant facts, conditions and circumstances, if any, pertaining to such Property where such violations or remedial obligations would have a Material Adverse Effect.

Section 9.14 Transactions with Affiliates. Except as set out in Schedule 9.14, neither Borrower nor any Subsidiary will enter into any transaction, including any purchase, sale, lease or exchange of Property or the rendering of any service, with any Affiliate (other than Borrower or Subsidiary) unless such transactions are otherwise not prohibited under this Agreement, in the ordinary course of its business and are upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's length transaction with a Person not an Affiliate. The restrictions set forth in this Section 9.14 shall not apply

to (a) the execution and delivery of any Loan Document, (b) compensation to, and the terms of any employment contracts with, individuals who are officers, managers or directors of the Loan Parties, provided such compensation is approved by the board of managers (or similar governing body) of Borrower or provided for in the Constituent Documents of the applicable Loan Party, (c) payments made pursuant to Section 9.04 or otherwise expressly permitted under this Agreement, and (d) the issuance and sale of

Equity Interests (other than Disqualified Capital Stock) in Borrower or the amendment of the terms of any Equity Interests issued by Borrower (other than Disqualified Capital Stock).

Section 9.15 Subsidiaries. Borrower shall not and shall not permit any Subsidiary to sell or to issue any Equity Interests of any Subsidiary, except (i) to Borrower or any Guarantor, (ii) in compliance with Section 9.03, or (iii) in compliance with Section 9.11(a). Borrower shall not, and shall not permit any Subsidiary to, create any additional Subsidiaries, except in accordance with Section 8.15.

Section 9.16 Negative Pledge Agreements. Neither Borrower nor any Subsidiary will create, incur, assume or permit to exist any contract, agreement or understanding (other than the Loan Documents) which in any way prohibits or restricts the granting, conveying, creation or imposition of any Lien on any of its Property or restricts any Subsidiary from paying dividends to Borrower, or which requires the consent of or notice to other Persons in connection therewith.

Section 9.17 Gas Imbalances, Take-or-Pay or Other Prepayments. Except as set forth on Schedule 7.23, on a net basis Borrower will not allow gas imbalances, take-or-pay or other prepayments with respect to the Borrowing Base Properties of Borrower or any Guarantor which would require Borrower or any Guarantor to deliver in the aggregate two percent (2%) or more of their Hydrocarbons produced on a monthly basis from such Borrowing Base Properties at some future time without then or thereafter receiving full payment therefor.

Section 9.18 Hedging Agreements.

(a) Neither Borrower nor any Subsidiary will enter into any Hedging Agreements with any Person other than any Lenders or its Affiliates or an Approved Third Party Hedge Provider;

(b) Neither Borrower nor any Subsidiary shall modify any trade or confirmation under a Hedging Agreement in any material respect to the extent it adversely affects the then-current Borrowing Base or terminate any Hedging Agreements to which it is currently a party or subsequently becomes a party without the consent of Agent and Supermajority Lenders, provided however that Borrower or any Subsidiary may modify or terminate any such Hedging Agreements without such consent if:

(i) such modified or terminated Hedging Agreement is replaced, in whole or in part, by one or more additional Hedging Agreements on terms which do not materially adversely affect the then-current Borrowing Base;

(ii) such terminated Hedging Agreement was with a party who ceases to be a Lender (or Affiliate of a Lender) and was terminated in connection with the assignment, amendment or other transaction pursuant to which such party ceases to be a Lender or an Affiliate of a Lender; provided that in such event the Borrowing Base may be redetermined upon request by Agent and the Supermajority Lenders (in which case such redetermination shall not count as an unscheduled redetermination under Section 2.08(e)); or

(iii) if, for any fiscal quarter, the commodity hedges under any Hedging Agreements of the Loan Parties have net aggregate notional volumes (excluding purchased puts) that exceed eighty percent (80%) of the actual production for such fiscal quarter, the

Loan Parties may, and within fifteen (15) days following any written request by Agent, the Loan Parties shall, unwind, terminate or transfer commodity hedges to the extent required to reduce the net aggregate notional volumes (excluding purchased puts) hedged to no greater than eighty percent (80%) of reasonably anticipated production.

(c) Neither Borrower nor any Subsidiary will (i) purchase, assume, or hold a speculative position in any commodities market or futures market or enter into any Hedging Agreement for speculative purposes or (ii) enter into any Hedging Agreement for reasons other than as a part of its normal business operations as a risk management strategy to hedge against changes resulting from market conditions related to its operations.

ARTICLE X.
EVENTS OF DEFAULT; REMEDIES

Section 10.01 **Events of Default.** One or more of the following events shall constitute an “Event of Default”:

(a) (i) Borrower shall default in the payment or prepayment when due of any principal of any Loan, (ii) Borrower shall default in the payment or prepayment when due of any interest on any Loan or any reimbursement obligation for a disbursement made under any Letter of Credit, or any fees or other amount payable by it hereunder or under any other Loan Document; or (iii) Borrower shall default in making any payment when due under any Hedging Agreement, and such default shall continue for five (5) Business Days; or

(b) Borrower or any Subsidiary shall fail to make any payment when due of any principal of or interest on any of its other Material Debt and such failure to pay shall extend beyond any applicable period of grace, or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Debt shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Material Debt (or a trustee or agent on behalf of such holder or holders) to cause, such Material Debt to become due prior to its stated maturity; or

(c) any representation, warranty or certification made or deemed made herein or in any other Loan Document by Borrower or any Guarantor, or any certificate furnished to any Lender or Agent pursuant to the provisions hereof or any other Loan Document, shall prove to have been false or misleading as of the time made or furnished in any material respect (except to the extent qualified by materiality or Material Adverse Effect, in which case, in any respect); or

(d) Borrower shall:

(i) default in the performance of any of its obligations under Article IX, Section 8.01(a) through (g), Section 8.02, Section 8.07, Section 8.11, Section 8.12 or Section 8.17; or

(ii) default in the performance of any of its obligations under Article VIII (except Section 8.01(a) through (f), Section 8.02, Section 8.07, Section 8.11, Section 8.12 or Section 8.17), any other Article of this Agreement (except Article IX) or any other Loan Document (other than the payment of amounts due which shall be governed by Section 10.01(a)) and any of the preceding defaults in this subsection (d)(ii) shall continue unremedied for a period of thirty (30) days after the earlier to occur of (i) notice thereof to

65

Borrower by Agent or any Lender, or (ii) a Responsible Officer of Borrower otherwise becoming aware of such default; or

(e) any Guarantor shall default in the performance of any of its obligations under its Guaranty Agreement or any other Loan Document to which it is a party (other than the payment of amounts due, which shall have no grace period) and such default shall continue unremedied for a period of thirty (30) days after the earlier to occur of (i) notice thereof to Borrower and such Guarantor by Agent or any Lender (through Agent), or (ii) a Responsible Officer of Borrower or any Guarantor otherwise becoming aware of such default; or

(f) Borrower shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or

(g) Parent or Borrower shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, liquidation or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Federal Bankruptcy Code (or comparable Canadian bankruptcy law with respect to Parent), or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(h) a proceeding or case shall be commenced, without the application or consent of Parent or Borrower, in any court of competent jurisdiction, seeking (i) its liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of Parent or Borrower of all or any substantial part of its assets, or (iii) similar relief in respect of Parent or Borrower under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) days; or (iv) an order for relief against Parent or Borrower shall be entered in an involuntary case under the Federal Bankruptcy Code (or comparable Canadian bankruptcy law with respect to Parent); or

(i) a judgment or judgments for the payment of money in excess of the Threshold Amount in the aggregate shall be rendered by a court against Borrower or any Subsidiary and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within ninety (90) days from the date of entry thereof and Borrower or such Subsidiary shall not, within said period of ninety (90) days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

(j) the Loan Documents, or any material terms or provisions thereof, after delivery thereof shall for any reason, except to the extent permitted by the terms thereof, cease to be in full force and effect and valid, binding and enforceable in accordance with their terms, or cease to create a valid and perfected Lien of the priority required thereby on any of the Collateral purported to be covered thereby, except to the extent permitted by the terms of this Agreement, or Borrower shall so state any of the foregoing in writing; or

(k) a Change of Control occurs;

66

(l) any Guarantor takes, suffers or permits to exist any of the events or conditions referred to in subsection (f), (g), (h) or (i) or if any provision of any Guaranty Agreement related thereto shall for any reason cease to be valid and binding on any Guarantor or if any Guarantor shall so state in writing, or

(m) the dissolution of any Guarantor.

Section 10.02 Remedies.

(a) In the case of the occurrence and continuance of an Event of Default other than one referred to in clauses (f), (g) or (h) of Section 10.01 or in clause (j) to the extent it relates to clauses (f), (g) or (h), Agent, upon request of the Required Lenders, shall, by notice to Borrower, cancel the Commitments (in whole or part) and/or declare the principal amount then outstanding of, and

the accrued interest on, the Loans and all other amounts payable by Borrower hereunder and under the Notes (including the payment of cash collateral to secure the LC Exposure as provided in Section 2.10(b)) to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other formalities of any kind, all of which are hereby expressly waived by Borrower.

(b) In the case of the occurrence and continuance of an Event of Default referred to in clauses (f), (g) or (h) of Section 10.01 or in clause (j) to the extent it relates to clauses (f), (g) or (h), the Commitments shall be automatically canceled and the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by Borrower hereunder and under the Notes (including the payment of cash collateral to secure the LC Exposure as provided in Section 2.10(b)) shall become automatically immediately due and payable without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other formalities of any kind, all of which are hereby expressly waived by Borrower.

(c) Upon acceleration of the Obligations under Section 10.02(a) or (b) above, Agent shall at the request of, or may with the consent of, the Required Lenders proceed to enforce its rights and remedies under the Security Documents and any other Loan Document, all for the ratable benefit of itself and the other Beneficiaries by appropriate actions and proceedings. No remedy conferred upon Agent, Issuing Bank, and the Lenders is intended to be exclusive of any other remedy, and each remedy shall be cumulative of all other remedies existing by contract, at law, in equity, by statute or otherwise.

(d) All proceeds received after maturity of the Notes, whether by acceleration or otherwise shall be applied first to Agent for reimbursement of expenses and indemnities provided for in this Agreement and the other Loan Documents; second to the Lenders pro rata for fees; third pro rata to accrued interest on the Notes; fourth pro rata to all other Obligations then outstanding, including principal outstanding on the Notes; fifth to serve as cash collateral to be held by Agent to secure the LC Exposure; and any excess shall be paid to Borrower or as otherwise required by any Governmental Requirement; provided that, to the extent that any Excluded Swap Obligation exists with respect to a Loan Party, payments from or the proceeds of any Collateral provided by that Loan Party may not be shared with the relevant Approved Counterparty in respect of the relevant Swap Obligation to the extent that doing so would violate the Commodity Exchange Act.

ARTICLE XI.

AGENT

Section 11.01 Appointment and Powers; Exculpatory Provisions. Each Lender and Issuing Bank hereby irrevocably appoints and authorizes Frost Bank to act on its behalf as Agent hereunder and

under the other Loan Documents and authorizes Agent to take such actions on its behalf and to exercise such powers as are delegated to Agent by the terms of this Agreement and the other Loan Documents, together with such other actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of Agent, the Lenders and Issuing Bank, and neither Borrower nor any other Loan Party shall have rights as a third-party beneficiary of any of such provisions. The duties of Agent shall be mechanical and administrative in nature. Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender. It is understood and agreed that the use of the term "agent" herein or in any other Loan Documents (or any other similar term) with reference to Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead such term is used as a matter of market custom, and is intended to create or reflect only an administrative relationship between contracting parties. Agent (which term as used in this sentence and in Section 11.05 and the first sentence of Section 11.06 shall include reference to its Affiliates and its and its Affiliates' officers, directors, employees, attorneys, accountants, experts and agents): (i) shall have no duties or responsibilities except those expressly set forth in the Loan Documents, and shall not by reason of the Loan Documents be a trustee or fiduciary for any Lender; (ii) makes no representation or warranty to any Lender and shall not be responsible to the Lenders for any recitals, statements, representations or warranties

contained in this Agreement, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement, or for the value, validity, effectiveness, genuineness, execution, effectiveness, legality, enforceability or sufficiency of this Agreement, any Note or any other document referred to or provided for herein or for any failure by Borrower or any other Person (other than Agent) to perform any of its obligations hereunder or thereunder or for the existence, value, perfection or priority of any Collateral or the financial or other condition of Borrower, its Subsidiaries or any other obligor or guarantor; (iii) except pursuant to Section 11.07 shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and (iv) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or in connection herewith including its own ordinary negligence, except for its own gross negligence or willful misconduct. Agent may employ agents, accountants, attorneys and experts and shall not be responsible for the negligence or misconduct of any such agents, accountants, attorneys or experts selected by it in good faith or any action taken or omitted to be taken in good faith by it in accordance with the advice of such agents, accountants, attorneys or experts. Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof permitted hereunder shall have been filed with Agent. Agent is authorized to release any Collateral that is permitted to be sold or released pursuant to the terms of the Loan Documents.

Section 11.02 Reliance by Agent. Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance, extension, renewal or increase of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or Issuing Bank, Agent may presume that such condition is satisfactory to such Lender or Issuing Bank unless Agent shall have received notice to the contrary from such Lender or Issuing Bank prior to the making of such Loan or the issuance of such Letter of Credit. In connection with taking any action pursuant to this Agreement, Agent may consult with legal counsel (who may be counsel for Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts, and such legal counsel, accountants and/or experts shall be afforded all of the indemnities and other protections afforded to Agent pursuant to Article XI.

Section 11.03 Default. Agent shall not be deemed to have knowledge of the occurrence of a Default unless Agent has received notice from a Lender, Issuing Bank or Borrower specifying such Default and stating that such notice is a "Notice of Default." Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders (or all or such other portion of the Lenders as shall be prescribed by this Agreement) in accordance with the terms hereof. Unless and until Agent has received any such request, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interests of the Lenders.

Section 11.04 Rights as a Lender. The Person serving as Agent hereunder shall have the same rights and powers under the Loans Documents as any other Lender and may exercise or refrain from exercising the same as though it were not acting as Agent, and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, invest in, own securities of, act as the financial advisor or in any other advisory capacity for, and generally engage in any kind of business with, Borrower or any Subsidiary or other Affiliate thereof as if such Person were not Agent hereunder and without any duty to account therefor to the Lenders, and such Person and its Affiliates may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

Section 11.05 INDEMNIFICATION. THE LENDERS AGREE TO INDEMNIFY AGENT AND ISSUING BANK RATABLY IN ACCORDANCE WITH THEIR PERCENTAGE SHARES FOR THE INDEMNITY MATTERS AS DESCRIBED IN SECTION 12.03 TO THE

EXTENT NOT INDEMNIFIED OR REIMBURSED BY BORROWER UNDER SECTION 12.03, BUT WITHOUT LIMITING THE OBLIGATIONS OF BORROWER UNDER SAID SECTION 12.03 AND FOR ANY AND ALL OTHER LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS OF ANY KIND AND NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY OR ASSERTED AGAINST AGENT OR ISSUING BANK IN ANY WAY RELATING TO OR ARISING OUT OF: (I) THIS AMENDMENT, AGREEMENT, THE OTHER LOAN DOCUMENTS OR ANY OTHER DOCUMENTS CONTEMPLATED BY OR REFERRED TO HEREIN OR THE TRANSACTIONS CONTEMPLATED HEREBY, BUT EXCLUDING, UNLESS A DEFAULT HAS OCCURRED AND IS CONTINUING, NORMAL ADMINISTRATIVE COSTS AND EXPENSES INCIDENT TO THE INTERCREDITOR PERFORMANCE OF ITS AGENCY DUTIES HEREUNDER OR (II) THE ENFORCEMENT OF ANY OF THE TERMS OF THIS AGREEMENT, REPRESENT ANY LOAN DOCUMENT OR OF ANY SUCH OTHER DOCUMENTS; WHETHER OR NOT ANY OF THE FOREGOING SPECIFIED IN THIS SECTION 11.05 ARISES FROM THE SOLE OR CONCURRENT NEGLIGENCE OF AGENT OR ISSUING BANK, PROVIDED THAT NO LENDER SHALL BE LIABLE FOR ANY OF THE FOREGOING TO THE EXTENT THEY ARISE FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF AGENT.

Section 11.06 *Non-Reliance on Agent and other Lenders.* Each Lender and Issuing Bank acknowledges and agrees that it has, independently and without reliance on Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis of Borrower and its decision to enter into this Agreement, and that it will, independently and without reliance upon Agent or any other Lender or any of their Related Parties, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder. Agent shall not be required to keep itself informed as to the performance or observance by Borrower of this Agreement, the Notes, any other Loan Document or any other document referred to or provided for herein or to inspect the properties or books of Borrower. Except for notices, reports and other documents and information expressly

required to be furnished to the Lenders by Agent hereunder, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of Borrower (or any of its Affiliates) which may come into the possession of Agent or any of its Affiliates. In this regard, each Lender acknowledges that Murphy Mahon Keffler Farrier, LLP is acting in this transaction as special counsel to Agent only. Each Lender will consult with its own legal counsel to the extent that it deems necessary in connection with the Loan Documents and the matters contemplated therein.

Section 11.07 *Action by Agent; Delegation of Duties.* Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 10.02 and Section 12.04), and (ii) in the absence of its own gross negligence or willful misconduct as determined by a court of competent jurisdiction by final and nonappealable judgment. The instructions of the Required Lenders (or all of the Lenders as expressly required by Section 12.04) and any action taken or failure to act pursuant thereto by Agent shall be binding on all of the Lenders. If an Event of Default has occurred and is continuing, Agent shall take such action with respect to such Event of Default as shall be directed by the Required Lenders (or all of the Lenders as required by Section 12.04) in the written instructions (with indemnities) described in this Section 11.07, provided that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Event of Default as it shall deem advisable in the best interests of the Lenders. In no event, however, shall Agent be required to take any action which exposes Agent to personal liability or which is contrary to this Agreement and the other Loan Documents or applicable law. Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub agents appointed by Agent. Agent and any such sub agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub agent and to the Related Parties of Agent and any such sub agent, and shall apply to their respective activities in connection with the syndication of the credit facility created by this Agreement, as well as activities as Agent. Agent shall not be responsible for the negligence or misconduct of any sub-agents except to the extent

that a court of competent jurisdiction determines in a final and nonappealable judgment that Agent acted with gross negligence or willful misconduct in the selection of such sub agents.

Section 11.08 Resignation of Agent.

(a) Agent may at any time give notice of its resignation to the Lenders, Issuing Bank and Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with Borrower, to appoint a successor, which shall be a bank with an office in the State of Texas, or an Affiliate of any such bank with an office in the State of Texas. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Agent gives notice of its resignation (or such earlier day as shall be agreed by the Required Lenders) (the "Resignation Effective Date"), then the retiring Agent may (but shall not be obligated to), on behalf of the Lenders and Issuing Bank, appoint a successor Agent meeting the qualifications set forth above; provided that in no event shall any such successor Agent be a Defaulting Lender. Whether or not a successor has been appointed, such resignation shall become effective in accordance with such notice on the Resignation Effective Date.

(b) If the Person serving as Agent is a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders may, to the extent permitted by applicable law, by notice in writing to Borrower and such Person remove such Person as Agent and, in consultation with Borrower, appoint a successor. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days (or such earlier day as shall be agreed by the Required

70

Lenders) (the "Removal Effective Date"), then such removal shall nonetheless become effective in accordance with such notice on the Removal Effective Date.

(c) With effect from the Resignation Effective Date or the Removal Effective Date (as applicable) (1) the retiring or removed Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by Agent on behalf of the Lenders or Issuing Bank under any of the Loan Documents, the retiring or removed Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) except for any indemnity payments owed to the retiring or removed Agent, all payments, communications and determinations provided to be made by, to or through Agent shall instead be made by or to each Lender and Issuing Bank directly, until such time, if any, as the Required Lenders appoint a successor Agent as provided for above. Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring or removed Agent (other than any rights to indemnity payments owed to the retiring or removed Agent), and the retiring or removed Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents. The fees payable by Borrower to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between Borrower and such successor. After the retiring or removed Agent's resignation or removal hereunder and under the other Loan Documents, the provisions of this Article and Section 12.03 shall continue in effect for the benefit of such retiring or removed Agent, its sub agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring or removed Agent was acting as Agent.

Section 11.09 Authorization to Execute other Loan Documents, Releases, Etc. Each Lender (on behalf of itself and its Affiliates that are Approved Counterparties) and Issuing Bank irrevocably authorize Agent, at its option and in its discretion:

(a) to execute on behalf of such Lender all Loan Documents to which it is a party (other than this Agreement) on its behalf and to take such actions as Agent on its behalf and to exercise such powers under the Loan Documents as are delegated to Agent by the terms thereof, together with all such powers as are reasonably incidental thereto;

(b) to release any Lien on any property granted to or held by Agent under any Loan Document (x) upon termination of all Commitments and payment in full of all Obligations (other than contingent indemnification obligations for which no demand has been made) under the Loan Documents and the expiration or termination of all Letters of Credit (other than Letters of Credit as to which other arrangements satisfactory to Agent and Issuing Bank shall have been made) and the termination of all Hedging Agreements with Approved Counterparties (other than any Approved Counterparty that has advised Agent that such Hedging Agreements are otherwise adequately provided for or novated) (the events described in this clause (x) being referred to as "Security Termination"), (y) that is sold or otherwise disposed of or to be sold or otherwise disposed of as part of or in connection with any sale or other disposition permitted under the Loan Documents, or (z) subject to Section 12.04, if approved, authorized or ratified in writing by the Required Lenders;

(c) to subordinate (or release) any Lien on any Property granted to or held by Agent under any Loan Document to the holder of any Lien on such Property that is permitted by Section 9.02(c);

(d) to release any Guarantor from its obligations under the Guaranty Agreement if such Person ceases to be a Subsidiary as a result of a transaction permitted under the Loan Documents; and

71

(e) subject to the terms of Section 12.04 and to the terms of the other Loan Documents, amend, modify, or waive any provisions of this Agreement or the other Loan Documents on behalf of Lenders.

Upon request by Agent at any time, the Required Lenders will confirm in writing Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Guarantor from its obligations under the Guaranty Agreement pursuant to this Section 11.09. Agent shall not be responsible for or have a duty to ascertain or inquire into any representation or warranty regarding the existence, value or collectability of the Collateral, the existence, priority or perfection of Agent's Lien thereon, or any certificate prepared by any Loan Party in connection therewith, nor shall Agent be responsible or liable to the Lenders for any failure to monitor or maintain any portion of the Collateral.

Section 11.10 Agent May File Proofs of Claim. In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to any Loan Party, Agent (irrespective of whether the principal of any Loan or Letter of Credit obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether Agent shall have made any demand on Borrower) shall be entitled and empowered (but not obligated) by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, Letters of Credit and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, Issuing Bank and Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, Issuing Bank and Agent and their respective agents and counsel and all other amounts due the Lenders, Issuing Bank and Agent under this Agreement) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and Issuing Bank to make such payments to Agent and, in the event that Agent shall consent to the making of such payments directly to the Lenders and Issuing Bank, to pay to Agent any amount due for the reasonable compensation, expenses, disbursements and advances of Agent and its agents and counsel, and any other amounts due Agent under this Agreement.

Section 11.11 Agency for Perfection. Agent and each Lender hereby appoint each other Lender as agent for the purpose of perfecting Agent's security interest in assets which, in accordance with the Uniform Commercial Code in any applicable jurisdiction, can be perfected by possession or control. Should any Lender (other than Agent) obtain possession or control of any such assets, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor, shall deliver such assets to Agent or in accordance with Agent's instructions or transfer control to Agent in accordance with Agent's instructions. Each Lender agrees that it will not have any right individually to enforce or seek to enforce any Security Instrument or to realize upon any Collateral for the Obligations unless instructed to do so by Agent, it being understood and agreed that such rights and remedies may be exercised only by Agent.

Section 11.12 Right to Perform, Preserve and Protect. If any Loan Party fails to perform any obligation hereunder or under any other Loan Document, then Agent itself may, after an Event of Default occurs, but shall not be obligated to, cause such obligation to be performed at Borrower's expense. Agent is further authorized by Borrower and the Lenders to make expenditures from time to time when an Event of Default has occurred and is continuing which Agent, in its reasonable business judgment, deems necessary

72

or desirable to (a) preserve or protect the business conducted by Borrower, the Collateral, or any portion thereof and/or (b) enhance the likelihood of, or maximize the amount of, repayment of the Loans and other Obligations. Borrower hereby agrees to reimburse Agent on demand for any and all costs, liabilities and obligations incurred by Agent pursuant to this Section 11.12. Each Lender hereby agrees to indemnify Agent upon demand for any and all costs, liabilities and obligations incurred by Agent pursuant to this Section 11.12.

Section 11.13 Additional Titled Agents. Except for rights and powers, if any, expressly reserved under this Agreement to any bookrunner, arranger or to any titled agent named on the cover page of this Agreement, other than Agent (collectively, the "Additional Titled Agents"), and except for obligations, liabilities, duties and responsibilities, if any, expressly assumed under this Agreement by any Additional Titled Agent, no Additional Titled Agent, in such capacity, has any rights, powers, liabilities, duties or responsibilities hereunder or under any of the other Loan Documents. Without limiting the foregoing, no Additional Titled Agent shall have nor be deemed to have a fiduciary relationship with any Lender. At any time that any Lender serving as an Additional Titled Agent shall have transferred to any other Person (other than any Affiliates) all of its interests in the Loans and in the Commitment, such Lender shall be deemed to have concurrently resigned as such Additional Titled Agent.

ARTICLE XII. MISCELLANEOUS

Section 12.01 Waiver. No failure on the part of Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any of the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any of the Loan Documents preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

Section 12.02 Notices. All notices and other communications provided for herein and in the other Loan Documents (including any modifications of, or waivers or consents under, this Agreement or the other Loan Documents) shall be given or made in writing by e-mail, courier or U.S. Mail and e-mailed, delivered or mailed to the intended recipient according to the "Notice Information" specified below its name on the signature pages hereof or in the Loan Documents or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement or in the other Loan Documents, all such communications shall be deemed to have been duly given (i) when transmitted before 3:00 p.m. Houston time on a Business Day (otherwise on the next succeeding Business Day) by e-mail and evidence or confirmation of receipt is obtained, (ii)

when delivered, if personally delivered or (iii) in the case of a mailed notice, three (3) Business Days after the date deposited in the mails, postage prepaid, and in each case given or addressed as aforesaid.

Section 12.03 **Payment of Expenses, Indemnities, Etc.**

(a) Borrower agrees:

(i) whether or not the transactions hereby contemplated are consummated, to pay all reasonable and documented out-of-pocket expenses of Agent in the administration (both before and after the execution hereof and including advice of counsel as to the rights and duties of Agent and the Lenders with respect thereto) of, and in connection with the negotiation, syndication, investigation, preparation, execution and delivery of, recording or filing of, preservation of rights under, enforcement of, and refinancing, renegotiation or restructuring of, the Loan Documents and any amendment, waiver or consent relating

73

thereto (including reasonable and documented out-of-pocket travel, photocopy, mailing, courier, telephone and other similar expenses of Agent, the cost of environmental audits, surveys and appraisals at reasonable intervals, the reasonable fees and disbursements of counsel and other outside consultants for Agent and, in the case of enforcement, the reasonable fees and disbursements of counsel for Agent and any of the Lenders); and promptly reimburse Agent for all reasonable and documented out-of-pocket amounts expended, advanced or incurred by Agent or the Lenders to satisfy any obligation of Borrower under this Agreement or any other Loan Document, including all costs and expenses of foreclosure;

(ii) TO INDEMNIFY AGENT, ISSUING BANK AND EACH LENDER AND EACH OF THEIR AFFILIATES AND EACH OF THEIR OFFICERS, DIRECTORS, EMPLOYEES, REPRESENTATIVES, AGENTS, ATTORNEYS, ACCOUNTANTS AND EXPERTS ("INDEMNIFIED PARTIES") FROM, HOLD EACH OF THEM HARMLESS AGAINST AND PROMPTLY UPON DEMAND PAY OR REIMBURSE EACH OF THEM FOR, THE INDEMNITY MATTERS WHICH MAY BE INCURRED BY OR ASSERTED AGAINST OR INVOLVE ANY OF THEM (WHETHER OR NOT ANY OF THEM IS DESIGNATED A PARTY THERETO) AS A RESULT OF, ARISING OUT OF OR IN ANY WAY RELATED TO (I) ANY ACTUAL OR PROPOSED USE BY BORROWER OF THE PROCEEDS OF ANY OF THE LOANS OR LETTERS OF CREDIT, (II) THE EXECUTION, DELIVERY AND PERFORMANCE OF THE LOAN DOCUMENTS, (III) THE OPERATIONS OF THE BUSINESS OF BORROWER AND ITS SUBSIDIARIE(S), (IV) THE FAILURE OF BORROWER OR ANY SUBSIDIARY TO COMPLY WITH THE TERMS OF ANY LOAN DOCUMENT, OR WITH ANY GOVERNMENTAL REQUIREMENT, (V) ANY INACCURACY OF ANY REPRESENTATION OR ANY BREACH OF ANY WARRANTY OF BORROWER OR ANY GUARANTORS SET FORTH IN ANY OF THE LOAN DOCUMENTS, (VI) THE ISSUANCE, EXECUTION AND DELIVERY OR TRANSFER OF OR PAYMENT OR FAILURE TO PAY UNDER ANY LETTER OF CREDIT, (VII) THE PAYMENT OF A DRAWING UNDER ANY LETTER OF CREDIT NOTWITHSTANDING THE NON-COMPLIANCE, NON-DELIVERY OR OTHER IMPROPER PRESENTATION OF THE MANUALLY EXECUTED DRAFT(S) AND CERTIFICATION(S), (VIII) ANY ASSERTION THAT THE LENDERS WERE NOT ENTITLED TO RECEIVE THE PROCEEDS RECEIVED PURSUANT TO THE SECURITY DOCUMENTS OR (IX) ANY OTHER ASPECT OF THE LOAN DOCUMENTS INCLUDING THE REASONABLE FEES AND DISBURSEMENTS OF COUNSEL AND ALL OTHER EXPENSES INCURRED IN CONNECTION WITH INVESTIGATING, DEFENDING OR PREPARING TO DEFEND ANY SUCH ACTION, SUIT, PROCEEDING (INCLUDING ANY INVESTIGATIONS, LITIGATION OR INQUIRIES) OR CLAIM AND INCLUDING ALL INDEMNITY MATTERS BY REASON OF THE ORDINARY NEGLIGENCE OF ANY INDEMNIFIED PARTY, BUT EXCLUDING ALL INDEMNITY MATTERS ARISING SOLELY BY REASON OF (A) CLAIMS BETWEEN THE LENDERS OR ANY LENDER AND AGENT OR A LENDER'S SHAREHOLDERS AGAINST AGENT OR LENDER, (B) SUCH INDEMNIFIED PARTY'S BREACH IN BAD FAITH OF ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS, OR (C) THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT ON THE PART OF THE INDEMNIFIED PARTY, IN EACH CASE TO THE

EXTENT DETERMINED BY A FINAL, NON-APPEALABLE JUDGMENT OF A COURT OF COMPETENT JURISDICTION TO HAVE RISEN; AND

74

(iii) TO INDEMNIFY AND HOLD HARMLESS FROM TIME TO TIME THE INDEMNIFIED PARTIES FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, COST RECOVERY ACTIONS, ADMINISTRATIVE ORDERS OR PROCEEDINGS, DAMAGES AND LIABILITIES TO WHICH ANY SUCH PERSON MAY BECOME SUBJECT (I) UNDER ANY ENVIRONMENTAL LAW APPLICABLE TO BORROWER OR ANY SUBSIDIARY OR ANY OF THEIR PROPERTIES, INCLUDING THE TREATMENT OR DISPOSAL OF HAZARDOUS SUBSTANCES ON ANY OF THEIR PROPERTIES, (II) AS A RESULT OF THE BREACH OR NON-COMPLIANCE BY BORROWER OR ANY SUBSIDIARY WITH ANY ENVIRONMENTAL LAW APPLICABLE TO BORROWER OR ANY SUBSIDIARY, (III) DUE TO PAST OWNERSHIP BY BORROWER OR ANY SUBSIDIARY OF ANY OF THEIR PROPERTIES OR PAST ACTIVITY ON ANY OF THEIR PROPERTIES WHICH, THOUGH LAWFUL AND FULLY PERMISSIBLE AT THE TIME, COULD RESULT IN PRESENT LIABILITY, (IV) THE PRESENCE, USE, RELEASE, STORAGE, TREATMENT OR DISPOSAL OF HAZARDOUS SUBSTANCES ON OR AT ANY OF THEIR PROPERTIES OWNED OR OPERATED BY BORROWER OR ANY SUBSIDIARY OR (V) ANY OTHER ENVIRONMENTAL, HEALTH OR SAFETY CONDITION IN CONNECTION WITH THE LOAN DOCUMENTS PROVIDED, HOWEVER, NO INDEMNITY SHALL BE AFFORDED UNDER THIS SECTION 12.03(a)(iii) IN RESPECT OF ANY PROPERTY FOR ANY OCCURRENCE ARISING FROM THE ACTS OR OMISSIONS OF AGENT OR ANY LENDER DURING THE PERIOD AFTER WHICH SUCH PERSON, ITS SUCCESSORS OR ASSIGNS SHALL HAVE OBTAINED POSSESSION OF SUCH PROPERTY (WHETHER BY FORECLOSURE OR DEED IN LIEU OF FORECLOSURE, AS MORTGAGEE-IN-POSSESSION OR OTHERWISE).

(b) Borrower shall not, without the prior written consent of each Indemnified Party affected thereby, settle any threatened or pending claim or action that would give rise to the right of any Indemnified Party to claim indemnification hereunder unless such settlement (i) does not include any statement as to or an admission of fault, culpability or failure to act by or on behalf of such Indemnified Party and (ii) requires no action on the part of the Indemnified Party other than its consent.

(c) In the case of any indemnification hereunder, Agent or Lender, as appropriate shall give notice to Borrower of any such claim or demand being made against the Indemnified Party and Borrower shall have the non-exclusive right to join in the defense against any such claim or demand.

(d) THE FOREGOING INDEMNITIES SHALL EXTEND TO THE INDEMNIFIED PARTIES NOTWITHSTANDING THE SOLE OR CONCURRENT NEGLIGENCE OF EVERY KIND OR CHARACTER WHATSOEVER, WHETHER ACTIVE OR PASSIVE, WHETHER AN AFFIRMATIVE ACT OR AN OMISSION, INCLUDING ALL TYPES OF NEGLIGENT CONDUCT IDENTIFIED IN THE RESTATEMENT (SECOND) OF TORTS OF ONE OR MORE OF THE INDEMNIFIED PARTIES OR BY REASON OF STRICT LIABILITY IMPOSED WITHOUT FAULT ON ANY ONE OR MORE OF THE INDEMNIFIED PARTIES. TO THE EXTENT THAT AN INDEMNIFIED PARTY IS FOUND TO HAVE COMMITTED AN ACT OF GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, THIS CONTRACTUAL OBLIGATION OF INDEMNIFICATION SHALL CONTINUE BUT SHALL ONLY EXTEND TO THE PORTION OF THE CLAIM THAT IS DEEMED TO HAVE OCCURRED BY REASON OF EVENTS OTHER THAN THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE INDEMNIFIED PARTY AFTER FINAL, NON-APPEALABLE JUDGMENT OF A COURT OF COMPETENT JURISDICTION.

75

(e) To the fullest extent permitted by applicable law, Borrower, Agent and each Lender shall not assert, and each hereby waives, any claim against any Indemnified Party on the one hand, or against Borrower or any other Loan Party on the other, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit, or the use of the proceeds thereof. Neither any Indemnified Party nor any Loan Party shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(f) Borrower's obligations under this Section 12.03 shall survive any termination of this Agreement and the payment of the Notes and shall continue thereafter in full force and effect.

(g) Borrower shall pay any amounts due under this Section 12.03 within thirty (30) days of the receipt by Borrower of notice of the amount due.

(h) In the case of any Indemnity Matter or any other loss, claim, action, order, proceeding, damage or liability, the indemnity provided under this Section 12.03 shall be effective whether or not such Indemnity Matter or any other loss, claim, action, order, proceeding, damage or liability is brought or claimed by Borrower, any Affiliate or Subsidiary of Borrower, an Indemnified Party or any other Person and whether or not an Indemnified Party is otherwise a party thereto.

Section 12.04 **Amendments, Etc.** Any provision of this Agreement or any other Loan Document may be amended, modified or waived with Borrower's and the Required Lenders' prior written consent; provided that (a) no amendment, modification or waiver which (i) extends the final maturity of the Loans, (ii) increases the Aggregate Maximum Credit Amounts, (iii) increases the Borrowing Base, (iv) forgives the principal amount of any Obligations outstanding under this Agreement, (v) releases any guarantor of any Obligations (except as provided in the Guaranty Agreement or in this Agreement) or releases all or substantially all of the Collateral, (vi) reduces the interest rate applicable to the Loans or the fees payable to the Lenders generally, (vii) affects Section 2.03(a), Section 4.02, Section 4.05 this Section 12.04 or Section 12.06(a), (viii) modifies the definition of "Required Lenders" or "Supermajority Lenders" or (ix) subordinates, or has the effect of subordinating, the Obligations in right of payment or Liens securing Agent's security interest in the Collateral to any other Debt or other obligation (except with respect to subordination of Liens, as provided in Section 11.09(c)), in each case, shall be effective without consent of all Lenders; (b) no amendment, modification or waiver which increases the Maximum Credit Amount of any Lender shall be effective without the consent of such Lender; (c) no amendment, modification or waiver which changes a scheduled date of prepayment of any Lender shall be effective without the consent of such Lender; and (d) no amendment, modification or waiver which modifies the rights, duties or obligations of Agent shall be effective without the consent of Agent.

Section 12.05 **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 12.06 **Assignments and Participations.**

(a) **Successors and Assigns Generally.** The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither Borrower nor any other Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of Agent and each Lender, and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an

assignee in accordance with the provisions of paragraph (b) of this Section, (ii) by way of participation in accordance with the provisions of paragraph (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of paragraph (e) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in paragraph (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) **Assignments by Lenders.** Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) **Minimum Amounts.**

(1) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and/or the Loans at the time owing to it or contemporaneous assignments to related Approved Funds that equal at least the amount specified in paragraph 12.06(b)(i)(2) of this Section in the aggregate or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(2) in any case not described in paragraph 12.06(b)(i)(1) of this Section, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the applicable Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment with respect to such assignment is delivered to Agent or, if "Trade Date" is specified in the Assignment, as of the Trade Date) shall not be less than \$5,000,000, unless each of Agent and, so long as no Event of Default has occurred and is continuing, Borrower otherwise consents.

(ii) **Proportionate Amounts.** Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loan or the Commitment assigned.

(iii) **Required Consents.** No consent shall be required for any assignment except to the extent required by paragraph 12.06(b)(i)(2) of this Section and, in addition:

(1) the consent of Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment, or (y) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund; provided that Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to Agent within five (5) Business Days after having received notice thereof;

(2) the consent of Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not

a Lender, an Affiliate of such Lender or an Approved Fund with respect to such Lender; and

(3) the consent of Issuing Bank shall be required.

(iv)Assignment and Assumption. The parties to each assignment shall execute and deliver to Agent an Assignment, together with a processing and recordation fee of \$3,500; provided that Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment.

(v)No Assignment to Certain Persons. No such assignment shall be made to (1) Borrower or any of Borrower's Affiliates, or Subsidiaries or (2) to any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (2).

(vi)No Assignment to Natural Persons. No such assignment shall be made to a natural Person.

(vii)Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of Borrower and Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (1) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to Agent, Issuing Bank and each other Lender hereunder (and interest accrued thereon), and (2) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit in accordance with its Percentage Share. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Subject to acceptance and recording thereof by Agent pursuant to paragraph (c) of this Section, from and after the effective date specified in each Assignment, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment, be released from its obligations under this Agreement (and, in the case of an Assignment covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 4.06, 5.01, 5.05 and 12.03 with respect to facts and circumstances occurring prior to the effective date of such assignment; provided, that except to the extent otherwise expressly agreed by the affected parties, no assignment by a Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (d) of this Section.

(c) **Register.** Agent, acting solely for this purpose as an agent of Borrower, shall maintain a copy of each Assignment delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and Borrower, Agent and the Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) **Participations.** Any Lender may at any time, without the consent of, or notice to, Borrower or Agent, sell participations to any Person (other than a natural Person or Borrower or any of Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, and (iii) Borrower, Agent, Issuing Bank and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. For the avoidance of doubt, each Lender shall be responsible for the indemnity under Section 11.05(d) with respect to any payments made by such Lender to its Participant(s).

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that requires the consent of all Lenders that affects such Participant. Borrower agrees that each Participant shall be entitled to the benefits of Sections 4.06, 5.01 and 5.05 (subject to the requirements and limitations therein, including the requirements under Section 4.06 (it being understood that the documentation required under Section 4.06 shall be delivered to the participating Lender)) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section; provided that such Participant (A) agrees to be subject to the provisions of Section 5.06 as if it were an assignee under paragraph (b) of this Section; and (B) shall not be entitled to receive any greater payment under Sections 4.06, 5.01 and 5.05, with respect to any participation, than its participating Lender would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Regulatory Change that occurs after the Participant acquired the applicable participation. Each Lender that sells a participation agrees, at Borrower's request and expense, to use reasonable efforts to cooperate with Borrower to effectuate the provisions of Section 5.06 with respect to any Participant. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 4.05(a) as though it were a Lender; provided that such Participant agrees to be subject to Section 4.05(b) as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as an agent of Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of

79

this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, Agent (in its capacity as Agent) shall have no responsibility for maintaining a Participant Register.

(e) **Certain Pledges.** Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or any central bank having jurisdiction over such Lender; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(f) **Notwithstanding any other provisions of this Section 12.06, no transfer or assignment of the interests or obligations of any Lender or any grant of participations therein shall be permitted if such transfer, assignment or grant would require Borrower to file a registration statement with the SEC or to qualify the Loans under the "Blue Sky" laws of any state.**

Section 12.07 Defaulting Lenders.

(a) **Defaulting Lender Adjustments.** Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then to the extent permitted by applicable law the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) **Waivers and Amendments.** Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definitions of Required Lenders and Supermajority Lenders.

(ii) **Defaulting Lender Waterfall.** Any payment of principal, interest, fees or other amounts received by Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article X or otherwise) or received by Agent from a Defaulting Lender pursuant to Section 4.05(b) shall be applied at such time or times as may be determined by Agent as follows: first, to the payment of any amounts owing by such Defaulting Lender to Agent hereunder; second, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to Issuing Bank hereunder; third, to Cash Collateralize the Issuing Banks' Fronting Exposure with respect to such Defaulting Lender in accordance with Section 12.07(e); fourth, as Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by Agent; fifth, if so determined by Agent and Borrower, to be held in a deposit account and released pro rata in order to (x) satisfy such Defaulting Lender's potential future funding obligations with respect to Loans under this Agreement and (y) Cash Collateralize Issuing Bank's future Fronting Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 12.07(e); sixth, to the payment of any amounts owing to Agent, the Lenders or Issuing Bank as a result of any judgment of a court of competent jurisdiction obtained by Agent, any Lender or Issuing Bank against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to Borrower as a result of any judgment of a court of competent jurisdiction obtained by Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and eighth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (x) such payment is a payment of the principal amount of any Loans or disbursements under Letters of Credit in respect of which such Defaulting Lender has not fully funded its appropriate share, and (y) such Loans were

made or the related Letters of Credit were issued at a time when the conditions set forth in Section 6.02 were satisfied or waived, such payment shall be applied solely to pay the Loans of, and Letter of Credit disbursements owed to, all Non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of, or Letter of Credit disbursements owed to, such Defaulting Lender until such time as all Loans and funded and unfunded participations in Letters of Credit are held by the Lenders pro rata in accordance with the Commitments without giving effect to Section 12.07(a)(iv). Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 12.07(a)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) **Certain Fees.** No Defaulting Lender shall be entitled to receive any unused Commitment fee pursuant to Section 2.04(a) for any period during which that Lender is a Defaulting Lender (and Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender);

(iv) **Reallocation of Participations to Reduce Fronting Exposure.** All or any part of such Defaulting Lender's participation in Letters of Credit shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Percentage Share at such time (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 6.02 are satisfied at the time of such reallocation (and, unless Borrower shall have otherwise notified Agent at such time, Borrower shall be deemed to have represented and warranted that such conditions are satisfied at such time), and (y) such reallocation does not cause the aggregate Loans and LC Exposure of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Commitment. No reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

(v) **Cash Collateral.** If the reallocation described in clause (iv) above cannot, or can only partially, be effected, Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, Cash Collateralize Issuing Bank's Fronting Exposure in accordance with the procedures set forth in Section 12.07(e).

(b) **Defaulting Lender Cure.** If Borrower, Agent and Issuing Bank agree in writing that a Lender is no longer a Defaulting Lender, Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit to be held pro rata by the Lenders in accordance with the Commitments (without giving effect to Section 12.07(a)(iv)), whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

81

(c) **New Letters of Credit.** So long as any Lender is a Defaulting Lender, Issuing Bank shall not be required to issue, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no Fronting Exposure after giving effect thereto.

(d) **Replacement of Defaulting Lenders.** If any Lender becomes a Defaulting Lender, then Borrower may, at its sole expense and effort, upon notice to such Lender and Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 12.06), all its interests, rights and obligations under this Agreement and the related Loan Documents to an Eligible Assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in disbursements under Letters of Credit that have not yet been reimbursed, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or Borrower (in the case of all other amounts). A Defaulting Lender shall not be required to make any such assignment and delegation if, prior thereto, the circumstances entitling Borrower to require such assignment and delegation cease to apply.

(e) **Cash Collateral.** At any time that there shall exist a Defaulting Lender, within one Business Day following the written request of Agent or Issuing Bank (with a copy to Agent) Borrower shall Cash Collateralize Issuing Bank's Fronting Exposure with respect to such Defaulting Lender (determined after giving effect to Section 12.07(a)(iv) and any Cash Collateral provided by such Defaulting Lender) in an amount not less than the Minimum Collateral Amount.

(i)Grant of Security Interest. Borrower, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grants to Agent, for the benefit of Issuing Bank, and agrees to maintain, a first priority security interest in all such Cash Collateral as security for the Defaulting Lenders' obligation to fund participations in respect of Letters of Credit, to be applied pursuant to clause (ii) below. If at any time Agent determines that Cash Collateral is subject to any right or claim of any Person other than Agent and Issuing Bank as herein provided, or that the total amount of such Cash Collateral is less than the Minimum Collateral Amount, Borrower will, promptly upon demand by Agent, pay or provide to Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency (after giving effect to any Cash Collateral provided by the Defaulting Lender).

(ii)Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 12.07 in respect of Letters of Credit shall be applied to the satisfaction of the Defaulting Lender's obligation to fund participations in respect of Letters of Credit (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the Cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein.

(iii)Termination of Requirement. Cash Collateral (or the appropriate portion thereof) provided to reduce Issuing Bank's Fronting Exposure shall no longer be required to be held as Cash Collateral pursuant to this Section 12.07(e) following (i) the elimination of the applicable Fronting Exposure (including by the termination of Defaulting Lender status of the applicable Lender), or (ii) the determination by Agent and Issuing Bank that there exists excess Cash Collateral; provided that, subject to this Section 12.07 the Person providing Cash Collateral and each Issuing Bank may agree that Cash Collateral shall be held to support future anticipated Fronting Exposure or other obligations and provided

82

further that to the extent that such Cash Collateral was provided by Borrower, such Cash Collateral shall remain subject to the security interest granted pursuant to the Loan Documents.

Section 12.08 **Invalidity.** In the event that any one or more of the provisions contained in any of the Loan Documents, the Letters of Credit or the Letter of Credit Agreements shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of the Notes, this Agreement or any other Loan Document.

Section 12.09 **Counterparts; Delivery of Electronic Signature Page.** This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart. Delivery of an executed signature page of this Agreement and the other Loan Documents by email or other electronic means shall be effective as delivery of an original executed signature page of this Agreement and such other Loan Documents and shall be binding on the parties hereto and thereto. Any party delivering an executed counterpart signature page of this Agreement and any other Loan Documents by electronic means shall also physically deliver original executed counterpart signature pages of this Agreement and such other Loan Documents in the manner and quantity as requested by Agent or Agent's counsel, but the failure to physically deliver such original executed counterpart signature pages shall not affect the validity, enforceability, and binding effect of this Agreement or such other Loan Documents.

Section 12.10 **Survival.** The obligations of the parties under Section 4.06, Article V, and Sections 11.05 and 12.03 shall survive the repayment of the Loans and the termination of the Commitments. To the extent that any payments on the Obligations or proceeds of any Collateral are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or other Person under any bankruptcy law, common law or equitable cause, then to such extent, the Obligations so satisfied shall be revived and continue as if such payment or proceeds had not been received and Agent's and the Lenders' Liens, security interests, rights, powers and remedies under this Agreement and each of the other Loan Documents shall

continue in full force and effect. In such event, each Loan Document shall be automatically reinstated and Borrower shall take such action as may be reasonably requested by Agent and the Lenders to effect such reinstatement.

Section 12.11 Captions. Captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

Section 12.12 NO ORAL AGREEMENTS. THE LOAN DOCUMENTS EMBODY THE ENTIRE AGREEMENT AMONG AND UNDERSTANDING BETWEEN THE PARTIES AND SUPERSEDE ALL OTHER AGREEMENTS AND UNDERSTANDINGS BETWEEN SUCH PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF. THEREOF. THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG BETWEEN THE PARTIES.

Seventh Amendment to Credit Agreement

Page 9

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the Seventh Amendment Execution Date.

EPSILON ENERGY USA INC,
as Borrower

By: /s/ B. Lane Bond

Name: B. LANE BOND

Title: CFO

ACKNOWLEDGED AND AGREED:

EPSILON ENERGY LTD.,
as a Guarantor

By: /s/ B. Lane Bond

Name: B. LANE BOND

Title: CFO

EPSILON MIDSTREAM, LLC,
as a Guarantor

By: Epsilon Energy USA Inc,
its Managing Member

By: /s/ B. Lane Bond

Name: B. LANE BOND

Title: CFO

ACKNOWLEDGED AND AGREED:

DEWEY ENERGY HOLDINGS, LLC,
as a Guarantor

By: /s/ B. Lane Bond
Name: B. LANE BOND
Title: CFO

DEWEY ENERGY GP, LLC,
as a Guarantor

By: /s/ B. Lane Bond
Name: B. LANE BOND
Title: CFO

TEXAS CAPITAL BANK, NATIONAL
ASSOCIATION,
as Administrative Agent and a Lender

By: /s/ Gabriel X. Garcia
Gabriel X. Garcia
Vice President

Exhibit 10.9

EIGHTH AMENDMENT TO CREDIT AGREEMENT

This Section 12.13 EIGHTH AMENDMENT GOVERNING LAW; SUBMISSION TO CREDIT AGREEMENT JURISDICTION (this "Amendment") is entered into as of August 2, 2022 (the "Eighth Amendment Execution Date"), among EPSILON ENERGY USA INC ("Borrower"), the LENDERS (as hereinafter defined), and TEXAS CAPITAL BANK, successor by conversion to

Texas Capital Bank, National Association, as administrative agent for the Lenders (in such capacity, “Administrative Agent”).

WHEREAS, Borrower, the financial institutions party thereto (collectively, together with their respective successors and assigns, the “Lenders”), and Administrative Agent are parties to that certain Credit Agreement dated as of July 29, 2013, as amended by First Amendment to Credit Agreement dated as of December 10, 2015, Second Amendment to Credit Agreement dated as of October 11, 2016, Third Amendment to Credit Agreement dated as of February 21, 2017, Fourth Amendment to Credit Agreement dated as of August 4, 2017, Fifth Amendment to Credit Agreement dated as of January 7, 2019, Sixth Amendment to Credit Agreement dated as of August 14, 2019, and Seventh Amendment to Credit Agreement dated as of April 6, 2021 (as so amended, the “Credit Agreement”);

WHEREAS, Borrower has requested that Administrative Agent and the Lenders amend the Credit Agreement as hereinafter provided;

WHEREAS, subject to the terms and conditions set forth herein, Administrative Agent and the Lenders are willing to agree to such amendment; and

WHEREAS, Borrower, the Lenders and Administrative Agent acknowledge that the terms of this Amendment constitute an amendment and modification of, and not a novation of, the Credit Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Unless otherwise defined in this Amendment, capitalized terms used in this Amendment that are defined in the Credit Agreement shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Amendment to the Credit Agreement. Subject to satisfaction of the conditions of effectiveness set forth in **Section 3** of this Amendment, the parties hereto agree that:

(a) **Section 7.1(b)** of the Credit Agreement is hereby amended to delete the reference to “forty-five (45) days” and to replace it with “sixty (60) days”.

SECTION 3. Conditions of Effectiveness. The amendment set forth in **Section 2** of this Amendment, as well as any other terms and conditions set forth herein, shall be effective as of date Administrative Agent shall have received each of the following, which shall be in form and substance satisfactory to Administrative Agent: THIS AGREEMENT, EACH NOTE AND EACH OTHER LOAN DOCUMENT, AND ALL MATTERS RELATING HERETO OR THERETO OR ARISING THEREFROM (WHETHER SOUNDING IN CONTRACT LAW, TORT LAW OR OTHERWISE), SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES, EXCEPT TO THE EXTENT THAT UNITED STATES FEDERAL LAW PERMITS ANY LENDER TO CHARGE

Eighth Amendment to Credit Agreement

Page 183

(a) counterparts of this Amendment executed by Borrower, Guarantors, the Lenders and Administrative Agent; INTEREST AT THE RATE ALLOWED BY THE LAWS OF THE STATE WHERE SUCH LENDER IS LOCATED. CH. 346 OF THE TEXAS FINANCE CODE

(WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRI-PARTY ACCOUNTS) SHALL NOT APPLY TO THIS AGREEMENT OR THE NOTES.

(b) all fees and expenses required to be paid pursuant to the Loan Documents, including, without limitation, the fees and expenses of Winstead PC invoiced on or prior to the Eighth Amendment Execution Date; and BORROWER, AGENT AND EACH LENDER HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF HARRIS, STATE OF TEXAS AND IRREVOCABLY AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS MAY BE LITIGATED IN SUCH COURTS. BORROWER, AGENT AND EACH LENDER HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH JURISDICTION. THIS SUBMISSION TO JURISDICTION IS NON- EXCLUSIVE AND DOES NOT PRECLUDE BORROWER, AGENT OR ANY LENDER FROM OBTAINING JURISDICTION OVER ANY OTHER PARTY IN ANY COURT OTHERWISE HAVING JURISDICTION.

(c) such other certificates, documents, consents or opinions as Administrative Agent reasonably may require. BORROWER, AGENT AND EACH LENDER HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO BORROWER AT ITS SAID ADDRESS, SUCH SERVICE TO BECOME EFFECTIVE TEN (10) DAYS AFTER SUCH MAILING. NOTHING HEREIN SHALL AFFECT THE RIGHT OF BORROWER, AGENT, ANY LENDER OR ANY HOLDER OF A NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANOTHER PARTY OR ITS PROPERTIES IN ANY OTHER JURISDICTION.

SECTION

4. (d) Reaffirmation of Borrowing Base. Subject to the satisfaction of the conditions of effectiveness set forth in Section 3 of this Amendment and effective as of the Eighth Amendment Execution Date, the Borrowing Base is hereby reaffirmed at \$14,000,000. The foregoing redetermination of the Borrowing Base is deemed a periodic redetermination of the Borrowing Base under Section 2.10(b) of the Credit Agreement as of April 1, 2022. The Borrowing Base as so redetermined shall remain in effect until the next periodic redetermination of the Borrowing Base under Section 2.10(b) of the Credit Agreement, unless otherwise adjusted pursuant to the Credit Agreement. Borrower, Administrative Agent and each of the undersigned Lenders hereby waive the occurrence of the periodic redeterminations of the Borrowing Base to have occurred as of April 1, 2021, and October 1, 2021. BORROWER, AGENT AND EACH LENDER HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. BORROWER, AGENT AND EACH LENDER ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. BORROWER, AGENT AND EACH LENDER WARRANTS AND REPRESENTS THAT EACH HAS HAD THE OPPORTUNITY OF REVIEWING THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

SECTION

5. Section

12.14 Acknowledgment and Ratification Interest. As a material inducement It is the intention of the parties hereto that each Lender shall conform strictly to Administrative Agent usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to any Lender under laws applicable to it (including the laws of the United States of America and the Lenders State of Texas or any other jurisdiction whose laws may be mandatorily applicable to execute and deliver this Amendment, each Obligated Party acknowledges and agrees that such Lender notwithstanding the execution, delivery, and performance other provisions of this Amendment shall, except as expressly provided herein, Agreement), then, in no way release, diminish, impair, reduce, or otherwise affect that event, notwithstanding anything to the obligations contrary in any of any Obligated Party under the Loan Documents or any agreement entered into in connection with or as security for the Notes, it is agreed as follows: (i) the aggregate of all consideration which Loan Documents shall remain in full force and effect.

SECTION 6. Borrower's Representations and Warranties. As a material inducement constitutes interest under law applicable to Administrative Agent and the Lenders to execute and deliver this Amendment, each Obligated Party represents and warrants to Administrative Agent and the Lenders (with the knowledge and intent any Lender that Administrative Agent and the Lenders are relying upon the same in entering into this Amendment) that, as of the Eighth Amendment Execution Date:

(a) The execution, delivery, and performance is contracted for, taken, reserved, charged or received by such Person of this Amendment and compliance with the terms and provisions hereof have been duly authorized by all requisite action on the part of such Person and do not and will not (i) violate or conflict with, or result in a breach of, or require any consent Lender under (A) the Constituent Documents of such Person, (B) any applicable law, rule, or regulation or any order, writ, injunction, or decree of any Governmental Authority or arbitrator which could result in a Material Adverse Event, or (C) any agreement or instrument to which such Person is a party or by which it or any of its Properties is bound or subject which could result in a Material Adverse Event, or (ii) constitute a default under any such agreement or instrument which could result in a Material Adverse Event, or result in the creation or imposition of any Lien upon any of the revenues Loan Documents or assets of agreements or otherwise in connection with the Notes shall under no circumstances exceed the maximum amount allowed by such Person. applicable law, and any excess shall be canceled automatically and

Eighth Amendment to Credit Agreement

Page 284

(b) This Amendment constitutes legal, valid, and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as limited by Debtor Relief Laws.

(c) No authorization, approval, or consent of, and no filing or registration with, any Governmental Authority or third party is or will if theretofore paid shall be necessary for the execution, delivery, or performance credited by such Person of this Amendment or Lender on the validity or enforceability hereof.

(d) All principal amount of the representations and warranties contained in Article 6 of the Credit Agreement are true and correct on and as of the Eighth Amendment Execution Date with the same force and effect as if such representations and warranties had been made on and as of the Eighth Amendment Execution Date, except Obligations (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by such representations Lender to Borrower); and warranties specifically refer (ii) in the event that the maturity of the Notes is accelerated by reason of an election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to an earlier date, any Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in which case they are true and correct this Agreement or otherwise shall be canceled automatically by such Lender as of the date of such earlier acceleration or prepayment and, if theretofore paid, shall be credited by such Lender on the principal amount of the Obligations (or, to the extent that the principal amount of the Obligations shall have been or would thereby be paid in full, refunded by such Lender to Borrower). All sums paid or agreed to be paid to any Lender for the use, forbearance or detention of sums due hereunder shall, to the extent permitted by law applicable to such Lender, be amortized, prorated, allocated and spread throughout the full term of the Loans evidenced by the Notes until payment in full so that the rate or amount of interest on account of any Loans hereunder does not exceed the maximum amount allowed by such applicable law. If at any time and from time to time (i) the amount of interest payable to any Lender on any date and except that for purposes of shall be computed at the Highest Lawful Rate applicable to such Lender pursuant to this Section 7(d) 12.13, and (ii) in respect of any subsequent interest computation period the representations and warranties contained amount of interest otherwise payable to such Lender would be less

than the amount of interest payable to such Lender computed at the Highest Lawful Rate applicable to such Lender, then the amount of interest payable to such Lender in Section 6.2 respect of such subsequent interest computation period shall continue to be computed at the Credit Agreement Highest Lawful Rate applicable to such Lender until the total amount of interest payable to such Lender shall be deemed equal the total amount of interest which would have been payable to refer to such Lender if the most recent statements furnished pursuant to Section 7.1(a) and (b) total amount of the Credit Agreement, respectively.

(e) At the time of and after interest had been computed without giving effect to this Amendment, no Default exists. Section 12.13. To the extent that Chapter 303 of the Texas Finance Code is relevant for the purpose of determining the Highest Lawful Rate, such Lender elects to determine the applicable rate ceiling under such Chapter by the indicated weekly rate ceiling from time to time in effect.

SECTION

7. Section

12.15

Effect Confidentiality. In the event that Borrower provides to Agent or the Lenders confidential information belonging to Borrower, if Borrower shall (a) denominate any such written information as "confidential" or (b) preface the dissemination of Amendment any information communicated in any manner other than in writing as "confidential.", Agent and the Lenders shall thereafter maintain such information in confidence in accordance with the standards of care and diligence that each utilizes in maintaining its own confidential information. This Amendment, except as expressly provided herein, (a) obligation of confidence shall not apply to such portions of the information which (i) are in the public domain, (ii) hereafter become part of the public domain without Agent or the Lenders breaching their obligation of confidence to Borrower, (iii) are previously known by Agent or the Lenders from some source other than Borrower, (iv) are hereafter developed by Agent or the Lenders without using Borrower's information, (v) are hereafter obtained by or available to Agent or the Lenders from a third party who owes no obligation of confidence to Borrower with respect to such information or through any other means other than through disclosure by Borrower, (vi) are disclosed with Borrower's consent, (vii) must be deemed disclosed either pursuant to any Governmental Requirement or to Persons regulating the activities of Agent or the Lenders, (viii) as may be required by law or regulation or order of any Governmental Authority in any judicial, arbitration or governmental proceeding, (ix) are disclosed in connection with the exercise of any remedies under this Agreement, under any other Loan Document or under any Hedging Agreement or any agreement related to Banking Services Obligations, or any action or proceeding relating to this Agreement, any other Loan Document or any Hedging Agreement or any agreement related to Banking Services Obligations, or the enforcement of rights hereunder or thereunder, or (x) subject to an agreement containing provisions substantially the same as those of this Section, are disclosed to (A) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights and obligations under this Agreement, (ii) any actual or prospective party (or its Related Parties) to any swap, derivative or other transaction under which payments are to be a consent made by reference to the modification Borrower and its obligations, this Agreement or payments hereunder. Further, Agent or a waiver of Lender may disclose any such information to any other term Lender, any of its Affiliates and to its Related Parties, any independent

petroleum engineers or condition of the Credit consultants, any independent certified public accountants, any legal counsel employed by such Person in connection with this Agreement any Security Document or any other Loan Document, (b) shall not prejudice including the enforcement or exercise of all rights and remedies thereunder, or any right assignee or rights which Administrative participant (including prospective assignees and participants) in the Loans; provided, however, that Agent or the Lenders shall receive a confidentiality agreement from the Person to whom such information is disclosed such that said Person shall have the same obligation to maintain the confidentiality of such information as is imposed upon Agent or the Lenders hereunder. Notwithstanding anything to the contrary provided herein, this obligation of confidence shall cease three (3) years from the date the information was furnished, unless Borrower requests in writing at least thirty (30) days prior to the expiration of such three-year period, to maintain the confidentiality of such information for an additional three-year period. Borrower waives any and all other rights it may now have to confidentiality as against Agent and the Lenders arising by contract, agreement, statute or hereafter have under or law except as expressly stated in connection with the Credit Agreement, any Security Document or any other Loan Document, and

(c) shall not be deemed to be a waiver of any existing or future Default under the Credit Agreement, any Security Document or any other Loan Document. this Section 12.15.

SECTION

8. Section

12.16 **Miscellaneous**USA Patriot Act. This Amendment shall be governed by, Each Lender hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") is required to obtain, verify and construed record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow such Lender to identify Borrower in accordance with the laws of the State of Texas. The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof. This Amendment may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In evidencing this Amendment, it shall not be necessary to produce or account for more than one such counterpart. This Amendment, and any documents required or requested to be delivered pursuant to Section 3 hereof, may be delivered by facsimile or pdf transmission of the relevant signature pages hereof and thereof, as applicable. Act.

SECTION

9. Section

12.17 **Ratification**EXCULPATION PROVISIONS. Each Obligated Party ratifies and acknowledges that the Loan Documents to which it is a party are valid, subsisting and enforceable, except as limited by Debtor Relief Laws.

SECTION 10. NOTICE EACH OF FINAL THE PARTIES HERETO SPECIFICALLY AGREES THAT IT HAS A DUTY TO READ THIS AGREEMENT. THIS AMENDMENT, AND THE OTHER LOAN DOCUMENTS AND AGREES THAT IT IS CHARGED WITH NOTICE AND KNOWLEDGE OF THE INTERCREDITOR TERMS OF THIS AGREEMENT REPRESENT AND THE FINAL OTHER LOAN DOCUMENTS; THAT IT HAS IN FACT READ THIS AGREEMENT AMONG AND IS FULLY INFORMED AND HAS FULL NOTICE AND KNOWLEDGE OF THE PARTIES RELATING TO TERMS, CONDITIONS AND EFFECTS OF THIS AGREEMENT; THAT IT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL OF ITS CHOICE THROUGHOUT THE SUBJECT MATTER HEREOF NEGOTIATIONS PRECEDING ITS EXECUTION OF THIS AGREEMENT AND THEREOF THE OTHER LOAN DOCUMENTS; AND MAY HAS RECEIVED THE ADVICE OF ITS ATTORNEY IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; AND THAT IT RECOGNIZES THAT CERTAIN OF THE TERMS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS RESULT IN ONE PARTY ASSUMING THE LIABILITY INHERENT IN SOME ASPECTS OF THE TRANSACTION AND RELIEVING THE OTHER PARTY OF ITS RESPONSIBILITY FOR SUCH LIABILITY. EACH PARTY HERETO AGREES AND COVENANTS THAT IT WILL NOT BE CONTRADICTED BY EVIDENCE CONTEST THE VALIDITY OR ENFORCEABILITY OF PRIOR, CONTEMPORANEOUS, ANY EXCULPATORY PROVISION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS ON THE BASIS THAT THE PARTY HAD NO NOTICE OR SUBSEQUENT ORAL KNOWLEDGE OF SUCH PROVISION OR THAT THE PROVISION IS NOT "CONSPICUOUS."

[SIGNATURES BEGIN ON NEXT PAGE]

Eighth Amendment to Credit Agreement

Page 386

AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Remainder of page intentionally left blank. Signature pages follow.]

IN WITNESS WHEREOF, the The parties hereto have caused this Amendment Agreement to be duly executed and delivered by their proper and duly authorized officers as of the Eighth Amendment Execution Date, day and year first above written.

EPSILON ENERGY USA INC, INC.,
as Borrower

By: /s/ J. Andrew Williamson
Name: J. ANDREW WILLIAMSON Andrew Williamson
Title: CHIEF FINANCIAL OFFICER CFO

ACKNOWLEDGED AND AGREED:

EPSILONENERGYLTD.,
asaGuarantor Canadian corporation,

By: /s/ J. Andrew Williamson
Name: J. ANDREW WILLIAMSON
Title: CHIEF FINANCIAL OFFICER

EPSILON as Guarantor MIDSTREAM, LLC,
asaGuarantor

By : EpsilonEnergyUSAInc,
itsManagingMember

By: /s/ J. Andrew Williamson
Name: J. ANDREW WILLIAMSON Andrew Williamson
Title: CHIEF FINANCIAL OFFICER

ACKNOWLEDGED AND AGREED: CFO

DEWEY ENERGY HOLDINGS, EPSILON MIDSTREAM, LLC, a
Pennsylvania
limited liability company, asaGuarantor

By: Epsilon Energy USA Inc.,
its Managing Member

By: /s/ J. Andrew Williamson
Name: J. ANDREW WILLIAMSON Andrew Williamson
Title: CHIEF FINANCIAL OFFICER Chief Financial Officer

DEWEY ENERGY GP, EPSILON OPERATING, LLC,
as a Guarantor

By: Epsilon Energy USA Inc.,
its Sole Member

By: /s/ J. Andrew Williamson
Name: J. ANDREW WILLIAMSON Andrew Williamson
Title: CHIEF FINANCIAL OFFICER Chief Financial Officer

DEWEY ENERGY HOLDINGS, LLC, a Delaware
limited liability company, as Guarantor

By: Epsilon Energy USA Inc.,
its Sole Member

By: /s/ J. Andrew Williamson
Name: J. Andrew Williamson
Title: Chief Financial Officer

Eighth AmendmentSignature Pages of Borrower and Guarantors to Credit Agreement- Signature PageAgreement

TEXAS CAPITAL DEWEY ENERGY GP, LLC, a Delaware limited
liability company, as Guarantor

By: Epsilon Energy USA Inc.,
Its sole Member

By: /s/ J. Andrew Williamson
Name: J. Andrew Williamson
Title: CFO

ALTOLISA HOLDINGS, LLC, a Delaware limited
liability company, as Guarantor

By: Epsilon Energy USA Inc.,
Its sole Member

By: /s/ J. Andrew Williamson
Name: J. Andrew Williamson
Title: CFO

AGENT, ISSUING BANK AND LENDER:

FROST BANK,

as Administrative Agent, Issuing Bank and a Lender

By: /s/ Gabriel X. Garcia Matt Shands

Gabriel X. Garcia

Matt Shands, Senior Vice President

Eighth Amendment Exhibit "D" to Credit Agreement- Signature Page

Exhibit 10.10

NINTH AMENDMENT TO CREDIT AGREEMENT

This NINTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of February 10, 2023 (the "Ninth Amendment Execution Date"), among EPSILON ENERGY USA INC ("Borrower"), the LENDERS (as hereinafter defined), and TEXAS CAPITAL BANK, successor by conversion to Texas Capital Bank, National Association, as administrative agent for the Lenders (in such capacity, "Administrative Agent").

WHEREAS, Borrower, the financial institutions party thereto (collectively, together with their respective successors and assigns, the "Lenders"), and Administrative Agent are parties to that certain Credit Agreement dated as of July 29, 2013, as amended by First Amendment to Credit Agreement dated as of December 10, 2015, Second Amendment to Credit Agreement dated as of October 11, 2016, Third Amendment to Credit Agreement dated as of February 21, 2017, Fourth Amendment to Credit Agreement dated as of August 4, 2017, Fifth Amendment to Credit Agreement dated as of January 7, 2019, Sixth Amendment to Credit Agreement dated as of August 14, 2019, Seventh Amendment to Credit Agreement dated as of April 6, 2021, and Eighth Amendment to Credit Agreement dated as of August 2, 2022 (as so amended, the "Credit Agreement");

WHEREAS, Borrower has requested that Administrative Agent and the Lenders amend the Credit Agreement as hereinafter provided;

WHEREAS, subject to the terms and conditions set forth herein, Administrative Agent and the Lenders are willing to agree to such amendments; and

WHEREAS, Borrower, the Lenders and Administrative Agent acknowledge that the terms of this Amendment constitute an amendment and modification of, and not a novation of, the Credit Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. **Definitions.** Unless otherwise defined in this Amendment, capitalized terms used in this Amendment that are defined in the Credit Agreement shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. **Amendments to the Credit Agreement.** Subject to satisfaction of the conditions of effectiveness set forth in Section 3 of this Amendment, the parties hereto agree that:

(a) **Section 1.1** of the Credit Agreement is hereby amended to amend and restate the following definitions in their respective entirety to read as follows:

“Applicable Margin” means the applicable percentages per annum set forth below, based upon the Utilization applicable from time to time. The Applicable Margin shall immediately and automatically change when and as the Utilization changes.

Ninth Amendment to Credit Agreement

Page 1

Pricing Level	Utilization	Base Rate Portion	LIBOR Portion and Letter of Credit Fee	Commitment Fee
1	< 25%	0.25%	3.25%	0.50%
2	≥ 25% but < 50%	0.50%	3.50%	0.50%
3	≥ 50% but < 75%	0.75%	3.75%	0.50%
4	≥ 75% but < 90%	1.00%	4.00%	0.50%
5	≥ 90%	1.25%	4.25%	0.50%

“Projected Production” means, at any time, the reasonably anticipated projected production of oil, natural gas, condensate and natural gas liquids including gas processing plant products (measured by volume unit or BTU equivalent, not sales price) for the term of the contracts or a particular month, as applicable, from properties and interests owned by Borrower or any of its Subsidiaries which are located in the United States and which have attributable to them proved developed producing oil and gas reserves, as such anticipated production is reasonably projected in the Reserve Report then most-recently delivered to Administrative Agent hereunder, after deducting reasonably anticipated projected production from any properties or interests sold or under contract for sale that had been included in such analysis.

(b) **Section 1.1** of the Credit Agreement is hereby amended to add the following definitions in proper alphabetical order to read as follows:

“Hedge Trigger Date” has the meaning set forth in Section 7.17.

“Ninth Amendment Execution Date” means February 10, 2023.

“Permitted Tax Distributions” means, with respect to any Person, for any taxable period after the Ninth Amendment Execution Date during which time such Person is a pass-through entity for income Tax purposes, any distribution to any holder of such Person’s stock or other equity interests to permit such holders to pay federal income Taxes and all relevant state and local income Taxes at a rate equal to the highest marginal applicable Tax rate for the applicable Tax year, however denominated (together with any interest, penalties, additions to Tax, or additional amounts with respect thereto) imposed as a result of taxable income attributed to such holder as a partner of such Person under federal, state, and local income Tax laws, determined on a basis that combines those liabilities arising out of the net effect of the income, gains, deductions, losses, and credits of such Person and attributable to it in proportion and to the extent in which such holders hold stock or other equity interests of such Person; provided, however, the computation of Tax distributions under this definition shall take into account the carryovers of items of loss, deduction and expense

previously allocated by such Person to holders of its stock or other equity interests, such that the excess, if any, of the aggregate items of losses from the prior taxable year over aggregate items of income from the prior taxable year will be

Ninth Amendment to Credit Agreement

Page 2

deducted from the current taxable year's income before applying the appropriate Tax rate.

(c) **Section 2.1(b)** of the Credit Agreement is hereby amended to add the following sentence at the end thereof:

Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, commencing on the Ninth Amendment Execution Date, all new Borrowings shall consist only of Base Rate Portions, and Borrower may not convert any Portion to a LIBOR Portion or continue any Portion as a LIBOR Portion (any such Portion to be converted to a Base Rate Portion at the end of the applicable Interest Period), as applicable.

(d) **Section 7.1(p)** is hereby amended to delete the "and" at the end thereof and new **Section 7.1(q)** added immediately thereafter to read as follows:

(q) within 3 Business Days of the last day of each fiscal quarter after the Hedge Trigger Date, a report in form and substance reasonably satisfactory to Administrative Agent containing such information as Administrative Agent may reasonably request to determine compliance by Borrower with **Section 7.17**; and

(e) **Section 7.17** of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

Section 7.17 Commodity Hedging. Upon the date of the first occurrence of Utilization exceeding 0% after the Ninth Amendment Execution Date (the "**Hedge Trigger Date**"), (a) to the extent Utilization on the Hedge Trigger Date exceeds 0% but is less than or equal to 25%, Borrower shall either (i) immediately prepay the entire amount of such excess to Administrative Agent, for the ratable account of Revolving Credit Lenders, or (ii) within 3 Business Days of the Hedge Trigger Date, enter into, and thereafter maintain, Acceptable Commodity Hedging Agreements at strike prices acceptable to Administrative Agent covering at least 25% of Projected Production of natural gas for each of the first full 12 months after the Hedge Trigger Date and 25 % of Projected Production of natural gas for each of the next succeeding 12 months; or (b) to the extent Utilization on the Hedge Trigger Date exceeds 25% but is less than or equal to 50%, Borrower shall either (i) immediately prepay the entire amount of such excess to Administrative Agent, for the ratable account of Revolving Credit Lenders, or (ii) within 3 Business Days of the Hedge Trigger Date, enter into, and thereafter maintain, Acceptable Commodity Hedging Agreements at strike prices acceptable to Administrative Agent covering at least 50% of Projected Production of natural gas for each of the first full 12 months after the Hedge Trigger Date and 25% of Projected Production of natural gas for each of the next succeeding 12 months; or (c) to the extent Utilization on the Hedge Trigger Date exceeds 50%, Borrower shall either (i) immediately prepay the entire amount of such excess to Administrative Agent, for the ratable account of Revolving Credit Lenders, or (ii) within 3 Business Days of the Hedge Trigger Date, enter into, and thereafter maintain, Acceptable Commodity Hedging Agreements at strike prices acceptable to Administrative Agent covering at least 75 % of

Ninth Amendment to Credit Agreement

Page 3

Projected Production of natural gas for each of the first full 12 months after the Hedge Trigger Date and 50% of Projected Production of natural gas for each of the next succeeding 12 months. Within 3 Business Days of the last day of each fiscal quarter after the Hedge Trigger Date, Borrower shall enter into, and thereafter maintain, such Acceptable Commodity Hedging Transaction as would be required as if the last day of such fiscal quarter were the Hedge Trigger Date, as otherwise provided in this Section 7.17.

(f) The last sentence of Section 8.4 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

Notwithstanding the foregoing, (a) so long as no Default, Event of Default or Borrowing Base deficiency exists or would exist after giving effect thereto, Borrower may make Permitted Tax Distributions, and (b)(i) so long as no Default, Event of Default or Borrowing Base deficiency exists or would exist after giving effect thereto, (ii) Utilization is not greater than 80% after giving effect thereto and (iii) the Leverage Ratio for the most recently-ended Test Period for which financial statements are available (calculated on a pro forma basis after giving effect to such distributions and any Borrowings made in connection therewith) is less than or equal to 2.00 to 1.00, Borrower may make cash distributions to Parent; provided, however, notwithstanding the foregoing clause (b), to the extent (x) no Default, Event of Default or Borrowing Base deficiency exists or would exist after giving effect thereto, (y) Utilization is not greater than 90% after giving effect thereto and (z) the Leverage Ratio for the most recently-ended Test Period for which financial statements are available (calculated on a pro forma basis after giving effect to such distributions and any Borrowings made in connection therewith) is less than or equal to 1.50 to 1.00, Borrower may nonetheless make cash distributions to Parent in an aggregate amount not to exceed \$1,500,000 during any fiscal quarter.

SECTION 3. Conditions of Effectiveness. The amendments set forth in Section 2 of this Amendment, as well as any other terms and conditions set forth herein, shall be effective as of date Administrative Agent shall have received each of the following, which shall be in form and substance satisfactory to Administrative Agent:

- (a) counterparts of this Amendment executed by Borrower, Guarantors, the Lenders and Administrative Agent;
- (b) a Borrowing Base increase fee in an amount equal to \$42,191.78 and all other fees and expenses required to be paid pursuant to the Loan Documents, including, without limitation, the fees and expenses of Winstead PC invoiced on or prior to the Ninth Amendment Execution Date; and
- (c) such other certificates, documents, consents or opinions as Administrative Agent reasonably may require.

SECTION 4. Increase of Borrowing Base. Subject to the satisfaction of the conditions of effectiveness set forth in Section 3 of this Amendment and effective as of the Ninth Amendment Execution Date, the Borrowing Base is hereby increased from \$14,000,000 to

Ninth Amendment to Credit Agreement

Page 4

\$30,000,000. The foregoing determination of the Borrowing Base is deemed a periodic determination of the Borrowing Base under Section 2.10(b) of the Credit Agreement as of October 1, 2022. The Borrowing Base as so determined shall remain in effect until the next periodic determination of the Borrowing Base under Section 2.10(b) of the Credit Agreement, unless otherwise adjusted pursuant to the Credit Agreement.

SECTION 5. Acknowledgment and Ratification.As a material inducement to Administrative Agent and the Lenders to execute and deliver this Amendment, each Obligated Party acknowledges and agrees that the execution, delivery, and performance of this Amendment shall, except as expressly provided herein, in no way release, diminish, impair, reduce, or otherwise affect the obligations of any Obligated Party under the Loan Documents, which Loan Documents shall remain in full force and effect.

SECTION 6. Borrower's Representations and Warranties.As a material inducement to Administrative Agent and the Lenders to execute and deliver this Amendment, each Obligated Party represents and warrants to Administrative Agent and the Lenders (with the knowledge and intent that Administrative Agent and the Lenders are relying upon the same in entering into this Amendment) that, as of the Ninth Amendment Execution Date:

(a) The execution, delivery, and performance by such Person of this Amendment and compliance with the terms and provisions hereof have been duly authorized by all requisite action on the part of such Person and do not and will not (i) violate or conflict with, or result in a breach of, or require any consent under (A) the Constituent Documents of such Person, (B) any applicable law, rule, or regulation or any order, writ, injunction, or decree of any Governmental Authority or arbitrator which could result in a Material Adverse Event, or (C) any agreement or instrument to which such Person is a party or by which it or any of its Properties is bound or subject which could result in a Material Adverse Event, or (ii) constitute a default under any such agreement or instrument which could result in a Material Adverse Event, or result in the creation or imposition of any Lien upon any of the revenues or assets of such Person.

(b) This Amendment constitutes legal, valid, and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as limited by Debtor Relief Laws.

(c) No authorization, approval, or consent of, and no filing or registration with, any Governmental Authority or third party is or will be necessary for the execution, delivery, or performance by such Person of this Amendment or the validity or enforceability hereof.

(d) All of the representations and warranties contained in Article 6 of the Credit Agreement are true and correct on and as of the Ninth Amendment Execution Date with the same force and effect as if such representations and warranties had been made on and as of the Ninth Amendment Execution Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 7(d), the representations and warranties contained in Section 6.2 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 7.1(a) and (b) of the Credit Agreement, respectively.

Ninth Amendment to Credit Agreement

Page 5

(e) At the time of and after giving effect to this Amendment, no Default exists.

SECTION 7. Effect of Amendment.This Amendment, except as expressly provided herein, (a) shall not be deemed to be a consent to the modification or a waiver of any other term or condition of the Credit Agreement, any Security Document or any other Loan Document, (b) shall not prejudice any right or rights which Administrative Agent or the Lenders may now or hereafter have under or in connection with the Credit Agreement, any Security Document or any other Loan Document, and (c) shall not be deemed to be a waiver of any existing or future Default under the Credit Agreement, any Security Document or any other Loan Document.

SECTION 8. Miscellaneous.This Amendment shall be governed by, and construed in accordance with, the laws of the State of Texas. The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions

hereof. This Amendment may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In evidencing this Amendment, it shall not be necessary to produce or account for more than one such counterpart. This Amendment, and any documents required or requested to be delivered pursuant to Section 3 hereof, may be delivered by facsimile or pdf transmission of the relevant signature pages hereof and thereof, as applicable.

SECTION 9. **Ratification.** Each Obligated Party ratifies and acknowledges that the Loan Documents to which it is a party are valid, subsisting and enforceable, except as limited by Debtor Relief Laws.

SECTION 10. **NOTICE OF FINAL AGREEMENT.** THIS AMENDMENT, THE OTHER LOAN DOCUMENTS AND THE INTERCREDITOR AGREEMENT REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Remainder of page intentionally left blank. Signature pages follow.]

Ninth Amendment to Credit Agreement

Page 6

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the Ninth Amendment Execution Date.

EPSILON ENERGY USA INC,
as Borrower

By: /s/ J. Andrew Williamson

Name: J. ANDREW WILLIAMSON

Title: CFO

ACKNOWLEDGED AND AGREED:

EPSILON ENERGY LTD.,
as a Guarantor

By: /s/ J. Andrew Williamson

Name: J. ANDREW WILLIAMSON

Title: CFO

EPSILON MIDSTREAM, LLC,
as a Guarantor

By: Epsilon Energy USA Inc,
its Managing Member

By: /s/ J. Andrew Williamson

Name: J. ANDREW WILLIAMSON

Title: CFO

ACKNOWLEDGED AND AGREED:

DEWEY ENERGY HOLDINGS, LLC,
as a Guarantor

By: /s/ J. Andrew Williamson

Name: J. ANDREW WILLIAMSON

Title: CFO

DEWEY ENERGY GP, LLC,
as a Guarantor

By: /s/ J. Andrew Williamson

Name: J. ANDREW WILLIAMSON

Title: CFO

TEXAS CAPITAL BANK,
as Administrative Agent and a Lender

By: /s/ Gabriel X. Garcia

Gabriel X. Garcia

Vice President

Exhibit 23.1

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

March 23, 2023 20, 2024

Epsilon Energy Ltd.

500 Dallas, Suite 1250
Houston, Texas 77002

Ladies and Gentlemen:

We hereby consent to the reference to DeGolyer and MacNaughton and to the incorporation of the estimates contained in our reports entitled "Report as of **December 31, 2022** **December 31, 2023** on Reserves and Revenue of Certain Properties with interests attributable to Epsilon Energy Ltd" and "Report as of **December 31, 2021** **December 31, 2023** on Reserves and Revenue of Certain Properties with interests attributable to Epsilon Energy Ltd." in Part 1 and in the "Supplemental Information to Consolidated Financial Statements (Unaudited)" portion of the Annual Report on Form 10-K of Epsilon Energy Ltd. for the year ended **December 31, 2022** **December 31, 2023** (the Annual Report). We further consent to the inclusion of our report of third party dated **February 10, 2023** **January 16, 2024**, relating to our independent evaluation of the estimated proved oil, condensate, natural gas liquids, and gas reserves, as of **December 31, 2022** **December 31, 2023**, attributable to Epsilon Energy Ltd. in the Annual Report.

Very truly yours,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

Epsilon Energy Ltd.
Houston, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (**333-269267**) (**No. 333-269267**) and Form S-8 (**No. 333-232520**) of Epsilon Energy Ltd. of our report dated **March 23, 2023** **March 20, 2024**, relating to the consolidated financial statements, which appears in this **Annual Report on Form 10-K**.

/s/ BDO USA, **LLP.C.**

Houston, Texas

March 23, 2023 **20, 2024**

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
pursuant to Rule 13a-14(a)/15d-14(a)

I, Jason Stabell, Chief Executive Officer of Epsilon Energy Ltd., certify that:

1. I have reviewed this Annual Report on Form 10-K of Epsilon Energy Ltd.;

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;
- 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;
- 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 function):

- 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: ~~March 23, 2023~~ March 20, 2024

/s/ Jason Stabell

Jason Stabell

Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
pursuant to Rule 13a-14(a)/15d-14(a)

I, J. Andrew Williamson, Chief Financial Officer of Epsilon Energy Ltd., certify that:

1. I have reviewed this Annual Report on Form 10-K of Epsilon Energy Ltd.;

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;
- 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;
- 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 function):

- 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: ~~March 23, 2023~~ March 20, 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 Annual Report of Epsilon Energy Ltd. (the "Corporation") on Form 10-K for the period ending ~~December 31, 2022~~ December 31, 2023 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: ~~March 23, 2023~~ March 20, 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 Annual Report of Epsilon Energy Ltd. (the "Corporation") on Form 10-K for the period ending ~~December 31, 2022~~ December 31, 2023 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.

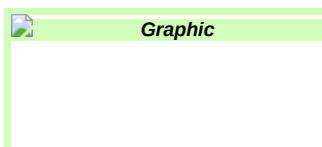
Date: ~~March 23, 2023~~ March 20, 2024

/s/ J. Andrew Williamson

J. Andrew Williamson

Chief Financial Officer

Exhibit 97.1



XII. EPSILON ENERGY'S CLAWBACK POLICY

Issued By: Board of Directors

Approved By: Board of Directors

The Board of Directors (the "Board") of Epsilon Energy Ltd. (the "Company") believes that it is in the best interest of the Company and its shareholders to adopt this clawback policy (the "Policy"), which provides for the recovery of certain incentive compensation in the event of an Accounting Restatement (as defined below). This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 10D of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10D-1 promulgated under the Exchange Act ("Rule 10D-1") and Nasdaq Listing Rule 5608 (the "Listing Standards").

1. Administration. Except as specifically set forth herein, this Policy shall be administered by the Board or, if so designated by the Board, a committee thereof (the Board or such committee charged with administration of this Policy, the "Administrator"). The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary,

appropriate, or advisable for the administration of this Policy. Any determinations made by the Administrator shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by the Policy. In the administration of this Policy, the Administrator is authorized and directed to consult with the full Board or such other committees of the Board, such as the Compensation Committee, as may be necessary or appropriate as to matters within the scope of such other committee's responsibility and authority. Subject to any limitation at applicable law, the Administrator may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

2. **Definitions.** As used in this Policy, the following definitions shall apply:

"Accounting Restatement" means an accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirements under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

"Administrator" has the same meaning set forth in Section 1 hereof.

"Applicable Period" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). The "date on which the Company is required to prepare an Accounting Restatement" is the earlier to occur of (a) the date the Board or the Audit Committee concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.

"Covered Employees" means the Company's current and former executive officers, as determined by the Administrator in accordance with the definition of executive officer set forth in Rule 10D-1 and the Listing Standards.

"Erroneously Awarded Compensation" has the meaning set forth in Section 5 of this Policy.

"Financial Reporting Measure" is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure. Financial Reporting Measures include but are not limited to the following (and any measures derived from the following): Company stock price; total shareholder return ("TSR"); revenues; net income; operating income; profitability of one or more reportable segments; financial ratios (e.g., accounts receivable); earnings before interest, taxes, depreciation and amortization ("EBITDA"); funds from operations and adjusted funds from operations; liquidity measures (e.g., working capital, operating cash flow, free cash flow); return measures (e.g., return on invested capital, return on assets); earnings measures (e.g., earnings per share); where sales is subject to an Accounting Restatement; cost per employee, where cost is subject to an Accounting Restatement; any of such financial reporting measures relative to a peer group, where the Company's financial reporting measure is subject to an Accounting Restatement; and tax basis income. A Financial Reporting Measure need not be presented within the Company's financial statements or included in a filing with the Securities Exchange Commission.

"Incentive-Based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is "received" for purposes of this Policy in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period.

3. **Covered Employees: Incentive-Based Compensation.** This Policy applies to Incentive-Based Compensation received by a Covered Employee (a) after beginning services as a Covered Employee; (b) if that person served as a Covered Employee at any time during the performance period for such Incentive-Based Compensation; and (c) while the Company had a listed class of securities on a national securities exchange.

4. **Required Recoupment of Erroneously Awarded Compensation in the Event of an Accounting Restatement.** In the event the Company is required to prepare an Accounting Restatement, the Company shall promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Employee, as calculated pursuant to Section 5 hereof, during the Applicable Period.

5. **Erroneously Awarded Compensation: Amount Subject to Recovery.** The amount of "Erroneously Awarded Compensation" subject to recovery under the Policy, as determined by the Administrator, is the amount of Incentive-Based Compensation received by the Covered Employee that exceeds the amount of Incentive-Based Compensation that would have been received by the Covered Employee had it been determined based on the restated amounts.

Erroneously Awarded Compensation shall be computed by the Administrator without regard to any taxes paid by the Covered Employee in respect of the Erroneously Awarded Compensation.

By way of example, with respect to any compensation plans or programs that take into account Incentive-Based Compensation, the amount of Erroneously Awarded Compensation subject to recovery hereunder includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.

For Incentive-Based Compensation based on stock price or TSR: (a) the Administrator shall determine the amount of Erroneously Awarded Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive-Based Compensation was received; and (b) the Company shall maintain documentation of the determination of that reasonable

estimate and provide such documentation to The Nasdaq Stock Market ("Nasdaq").

6. **Method of Recoupment.** The Administrator shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, which may include without limitation (a) seeking reimbursement of all or part of any cash or equity-based award, (b) cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid, (c) cancelling or offsetting against any planned future cash or equity-based awards, (d) forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code and the regulations promulgated thereunder and (e) any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Employee, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Employee.

The Company is authorized and directed pursuant to this Policy to recoup Erroneously Awarded Compensation in compliance with this Policy unless the Compensation Committee of the Board has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

(a) The direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Administrator must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover and provide that documentation to Nasdaq;

(b) Recovery would violate home country law of the issuer where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law of the issuer, the Administrator must satisfy the applicable opinion and disclosure requirements of Rule 10D-1 and the Listing Standards; or

(c) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

7. No Indemnification of Covered Employees. Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Covered Employee that may be interpreted to the contrary, the Company shall not indemnify any Covered Employees against the loss of any Erroneously Awarded Compensation, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Employees to fund potential clawback obligations under this Policy.

8. Administrator Indemnification. Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

9. Effective Date; Retroactive Application. This Policy shall be effective as of December 1, 2023 (the "Effective Date"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Employees on or after the Effective Date, even if such Incentive-Based Compensation was approved, awarded, granted, or paid to Covered Employees prior to the Effective Date. Without limiting the generality of Section 6 hereof, and subject to applicable law, the Administrator may affect recovery under this Policy from any amount of compensation approved, awarded, granted, payable or paid to the Covered Employee prior to, on or after the Effective Date.

10. Amendment; Termination. The Board may amend, modify, supplement, rescind or replace all or any portion of this Policy at any time and from time to time in its discretion, and shall amend this Policy as it deems necessary to comply with applicable law or any rules or standards adopted by a national securities exchange on which the Company's securities are listed.

11. Other Recoupment Rights; Company Claims. The Board intends that this Policy shall be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company under applicable law or pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages, or other legal remedies the Company or any of its affiliates may have against a Covered Employee arising out of or resulting from any actions or omissions by the Covered Employee.

12. Successors. This Policy shall be binding and enforceable against all Covered Employees and their beneficiaries, heirs, executors, administrators, or other legal representatives.

13. Exhibit Filing Requirement. A copy of this Policy and any amendments thereto shall be posted on the Company's website and filed as an exhibit to the Company's annual report on Form 10-K.

[Signature page follows.]

4

CLAWBACK POLICY ACKNOWLEDGMENT

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of the Epsilon Energy LTD's Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the "Policy"). In the event of any inconsistency between the Policy and the terms of any employment agreement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. In the event it is determined by the Administrator that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement. Any capitalized terms used in this Acknowledgment without definition shall have the meaning set forth in the Policy.

By:

Officer

Title

Date

5

Exhibit 99.1

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East East
Dallas, Texas 75244

February 10, 2023

January 16, 2024

Epsilon Energy Ltd.
500 Dallas Street
Suite 1250
Houston, Texas 77002

Ladies and Gentlemen:

Pursuant to your request, this report of third party presents an independent evaluation, as of December 31, 2022 December 31, 2023, of the extent and value of the estimated net proved oil, condensate, natural gas liquids (NGL), and gas reserves of certain properties in which Epsilon Energy Ltd. (Epsilon) has represented it holds an interest. This evaluation was completed on February 10, 2023 January 16, 2024. The properties evaluated herein consist of working and royalty interests located in New Mexico, Oklahoma,

Pennsylvania, and Pennsylvania, Texas. Epsilon has represented that these properties account for 100 percent on a net gas equivalent basis of Epsilon's net proved reserves as of December 31, 2022 December 31, 2023. The net proved reserves estimates have been prepared in accordance with the reserves definitions of Rules 4-10(a) (1)-(32) of Regulation S-X of the United States Securities and Exchange Commission (SEC). This report was prepared in accordance with guidelines specified in Item 1202 (a)(8) of Regulation S-K and is to be used for inclusion in certain SEC filings by Epsilon.

Reserves estimates included herein are expressed as net reserves. Gross reserves are defined as the total estimated petroleum remaining to be produced from these properties after December 31, 2022 December 31, 2023. Net reserves are defined as that portion of the gross reserves attributable to the interests held by Epsilon after deducting all interests held by others.

Values for proved reserves in this report are expressed in terms of future gross revenue, future net revenue, and present worth. Future gross revenue is defined as that revenue which will accrue to the evaluated interests from the production and sale of the estimated net reserves. Future net revenue is calculated by deducting

production taxes, impact fees, operating expenses, capital costs, and abandonment

2

DeGolyer and MacNaughton

costs from future gross revenue. Operating expenses include field operating expenses, transportation and processing expenses, and an allocation of overhead that directly relates to production activities. Capital costs include drilling and completion costs, facilities costs, and field maintenance costs. Abandonment costs are represented by Epsilon to be inclusive of those costs associated with the removal of equipment, plugging of wells, and reclamation and restoration associated with the abandonment. At the request of Epsilon, future income taxes were not taken into account in the preparation of these estimates. Present worth is defined as future net revenue discounted at a discount rate of 10 percent per year compounded monthly over the expected period of realization. Present worth should not be construed as fair market value because no consideration was given to additional factors that influence the prices at which properties are bought and sold.

Estimates of reserves and revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Information used in the preparation of this report was obtained from Epsilon and from public sources. In the preparation of this report we have relied, without independent verification, upon information furnished by Epsilon with respect to the property interests being evaluated, production from such properties, current costs of operation and development, current prices for production, agreements relating

to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination was not considered necessary for the purposes of this report.

Definition of Reserves

Petroleum reserves included in this report are classified as proved. Only proved reserves have been evaluated for this report. Reserves classifications used in this report are in accordance with the reserves definitions of Rules 4–10(a)

(1)–(32) of Regulation S–X of the SEC. Reserves are judged to be economically producible in future years from known reservoirs under existing economic and

operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs

3

DeGolyer and MacNaughton

consistent with the effective date of this report, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. The petroleum reserves are classified as follows:

Proved oil and gas reserves – Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience,

engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not

4

DeGolyer and MacNaughton

limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves – Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves – Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new

wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are

5

DeGolyer and MacNaughton

reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in [section 210.4–10 (a) Definitions], or by other evidence using reliable technology establishing reasonable certainty.

Methodology and Procedures

Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principles and techniques that are in accordance with the reserves definitions of Rules 4–10(a) (1)–(32) of Regulation S–X of the SEC and with practices generally recognized by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled “Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (revised June 2019) Approved by the SPE Board on 25 June 2019” and in Monograph 3 and Monograph 4 published by the Society of Petroleum Evaluation Engineers. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

Based on the current stage of field development, production performance, the development plans provided by Epsilon,

and analyses of areas offsetting existing wells with test or production data, reserves were classified as proved. The undeveloped reserves estimates were based on opportunities identified in the plan of

development provided by Epsilon.

Epsilon has represented that its senior management is committed to the development plan provided by Epsilon and that Epsilon has the financial capability

6

DeGolyer and MacNaughton

to execute the development plan, including the drilling and completion of wells and the installation of equipment and facilities.

For the evaluation of unconventional reservoirs, a performance-based methodology integrating the appropriate geology and petroleum engineering data was utilized for this report. Performance-based methodology primarily includes (1) production diagnostics, (2) decline-curve analysis, and (3) model-based analysis (if necessary, based on availability of data). Production diagnostics include data quality control, identification of flow regimes, and characteristic well performance behavior. These analyses were performed for all well groupings (or type-curve areas).

Characteristic rate-decline profiles from diagnostic interpretation were translated to modified hyperbolic rate profiles, including one or multiple b-exponent values followed by an exponential decline. Based on the availability of data, model-based analysis may be integrated to evaluate long-term decline behavior, the effect of dynamic reservoir and fracture parameters on well performance, and complex situations sourced by the nature of unconventional reservoirs.

In the evaluation of undeveloped reserves, type-well analysis was performed using well data from analogous reservoirs for which more complete historical performance data were available.

Data provided by Epsilon from wells drilled through December 31, 2022 December 31, 2023, and made available for this evaluation were used to prepare the reserves estimates herein. Reserves estimates for wells located in New Mexico, Pennsylvania, and Texas were based on consideration of daily and monthly production data available for certain properties only through November 2022, 2023. Estimated cumulative production, as of December 31, 2022 December 31, 2023, was deducted from the estimated gross ultimate recovery to estimate gross reserves. This required that production be estimated for up to 1 month for properties in Pennsylvania. New Mexico, Pennsylvania, and Texas. Reserves estimates for wells and overriding royalty interests located in Oklahoma were based on consideration of monthly production data available for certain properties only

through August 2022. June 2023. Estimated cumulative production, as of December 31, 2022 December 31, 2023, was deducted from the estimated gross ultimate recovery to estimate gross reserves, requiring that production be estimated for up to 46 months for properties in Oklahoma. Additionally, reserves estimates for wells and overriding royalty interests located in Oklahoma were based on consideration of monthly production data available for two twelve properties only through April 2022, 2023, due primarily to these data not being available in the public domain. Estimated cumulative production, as of December 31, 2022 December 31, 2023, was

DeGolyer and MacNaughton

deducted from the estimated gross ultimate recovery to estimate gross reserves, requiring that production be estimated for up to 8 months for properties in Oklahoma. Epsilon has represented that properties for which monthly production data were available only through April 2022 2023 were producing as of December 31, 2022 December 31, 2023.

Oil and condensate reserves estimated herein are those to be recovered by normal field separation. NGL reserves estimated herein include pentanes and heavier fractions (C₅₊) and liquefied petroleum gas (LPG), which consists primarily of propane and butane fractions, and are the result of low-temperature plant processing. Oil, condensate, and NGL reserves included in this report are expressed in thousands of barrels (Mbbbl). In these estimates, 1 barrel equals 42 United States gallons. For reporting purposes, oil and condensate reserves have been estimated separately and are presented herein as a summed quantity.

Gas quantities estimated herein are expressed as sales gas. Sales gas is defined as the total gas to be produced from the reservoirs, measured at the point of delivery, after reduction for fuel usage, flare, and shrinkage resulting from field separation and processing. Gas reserves estimated herein are reported as sales gas. Gas quantities are expressed at a temperature base of 60 degrees Fahrenheit (°F) and at the pressure base of the state in which the quantities are located. Gas quantities included in this report are expressed in millions of cubic feet (MMcf).

Gas quantities are identified by the type of reservoir from which the gas will be produced. Nonassociated gas is gas at initial reservoir conditions with no oil present in the reservoir. Associated gas is both gas-cap gas and solution gas. Gas-cap gas is gas at initial reservoir conditions and is in communication with an underlying oil zone. Solution gas is gas dissolved in oil at initial reservoir conditions. Gas quantities estimated herein include both associated and nonassociated gas.

At the request of Epsilon, liquid reserves estimated herein were converted to gas equivalent using an energy equivalent factor of 1 barrel of liquids per 6,000 cubic feet of gas equivalent.

Primary Economic Assumptions

Revenue values in this report were estimated using initial prices, expenses, and costs provided by Epsilon. Future prices were estimated using guidelines established by the SEC and the Financial Accounting Standards Board (FASB). The

following economic assumptions were used for estimating the revenue values reported herein:

Oil, Condensate, and NGL Prices

Epsilon has represented that the oil, condensate, and NGL prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual agreements. Epsilon supplied differentials to a West Texas Intermediate price of \$94.59 \$77.62 per barrel and the prices were held constant thereafter. The volume-weighted average prices attributable to the estimated proved reserves over the lives of the properties were \$92.59 \$78.55 per barrel of oil and condensate and \$35.63 \$33.43 per barrel of NGL.

Gas Prices

Epsilon has represented that the gas prices were based on a reference price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual agreements. Epsilon supplied differentials to a Henry Hub price of \$6.22 \$2.61 per million Btu and the prices were held constant thereafter. Btu factors provided by Epsilon were used to convert prices from dollars per million Btu to dollars per thousand cubic feet. The volume-weighted average price attributable to the estimated proved reserves over the lives of the properties was \$5.474 \$1.707 per thousand cubic feet of gas.

Production Taxes and Impact Fees

For properties located in New Mexico, Oklahoma, and Texas, production taxes were calculated using rates provided by Epsilon. For wells located in Pennsylvania, and in accordance with state law, an annual impact fee is assessed over the course of the first 15 years of production after the well is drilled. The amount of the annual fee imposed is adjusted annually on a

9

sliding scale based on the average price of gas for each given year.

Operating Expenses, Capital Costs, and Abandonment Costs

Estimates of operating expenses and future capital expenditures, provided by Epsilon and based on existing economic conditions, were held constant for the lives of the

properties. In certain cases, future expenditures, either higher or lower than current expenditures, may have been used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied. Abandonment costs, which are those costs associated with the removal of equipment, plugging of wells, and reclamation and restoration associated with the abandonment, were provided by Epsilon and were not adjusted for inflation. At the request of Epsilon, abandonment costs and any associated negative future net revenue have been included herein for those proved developed properties for which reserves were estimated to be zero. Operating expenses, capital costs, and abandonment costs were considered, as appropriate, in determining the economic viability of the undeveloped reserves estimated herein.

In our opinion, the information relating to estimated proved reserves, estimated future net revenue from proved reserves, and present worth of estimated future net revenue from proved reserves of oil, condensate, NGL, and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7, 932-235-50-9, 932-235-50-30, and 932-235-50-31(a), (b), and (e) of the Accounting Standards Update 932-235-50, Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures (January 2010) of the FASB and Rules 4–10(a) (1)–(32) of Regulation S–X and Rules 302(b), 1201, 1202(a) (1), (2), (3), (4), (8), and 1203(a) of

Regulation S–K of the SEC; provided, however, that (i) future income tax expenses have not been taken into account in estimating the future net revenue and present worth values set forth herein and (ii) estimates of the proved developed and proved undeveloped reserves are not presented at the beginning of the year.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature, we, as engineers, are necessarily

10

DeGolyer and MacNaughton

unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

Summary of Conclusions

DeGolyer and MacNaughton has performed an independent evaluation of the extent and value of the estimated net proved oil, condensate, NGL, and gas reserves of certain properties in which Epsilon has represented it holds an interest. The estimated net proved reserves, as of **December 31, 2022** **December 31, 2023**, of the properties evaluated herein were based on the definition of proved reserves of the SEC and are summarized as follows, expressed in thousands of barrels (Mbbbl), millions of cubic feet (MMcf), and millions of cubic feet of gas equivalent (MMcfe):

	Estimated by DeGolyer and MacNaughton Net Proved Reserves as of December 31, 2022				Estimated by DeGolyer and MacNaughton Net Proved Reserves as of December 31, 2023			
	Oil and Condensate (Mbbbl)	NGL (Mbbbl)	Sales Gas (MMcf)	Gas Equivalent (MMcfe)	Oil and Condensate (Mbbbl)	Sales NGL (Mbbbl)	Gas (MMcf)	Gas Equivalent (MMcfe)
Proved Developed	107	198	78,966	80,795	272	249	47,555	50,681
Proved Undeveloped	104	293	11,074	13,459	69	134	18,361	19,581
Total Proved	211	491	90,040	94,254	341	383	65,916	70,262

Note: Liquid reserves estimated herein were converted to gas equivalent using an energy equivalent factor of 1 barrel of liquids per 6,000 cubic feet of gas equivalent.

*The estimated future revenue to be derived from the production and sale of the net proved reserves, as of **December 31, 2022** **December 31, 2023**, of the properties evaluated using the guidelines established by the SEC is summarized as follows, expressed in thousands of dollars (M\$):*

Proved Developed (M\$)	Total Proved (M\$)
------------------------------	--------------------------

			Proved Developed (M\$)	Total Proved (M\$)
Future Gross Revenue	448,907	529,886	109,957	152,125
Production Taxes and Impact Fees	3,546	6,357	3,418	5,077
Operating Expenses	99,982	113,047	57,805	68,737
Capital Costs	0	14,051	0	8,793
Abandonment Costs	6,869	7,120	6,829	7,022
Future Net Revenue	338,510	389,311	41,905	62,496
Present Worth at 10 Percent	173,654	193,582	31,181	40,978

Note: Future income taxes have not been taken into account in the preparation of these estimates.

11

DeGolyer and MacNaughton

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its reserves, we are not aware of any such governmental

actions which would restrict the recovery of the **December 31, 2022** **December 31, 2023**, estimated reserves.

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1936. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in Epsilon. Our fees were not contingent on the results of our evaluation. This report has been prepared at the request of Epsilon. DeGolyer and MacNaughton has used all assumptions, procedures, data, and methods that it considers necessary to prepare this report.

Submitted,
/s/ DeGolyer and MacNaughton
DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

/s/ Dilhan Ilk P.E.
Dilhan Ilk, P.E.
Executive Vice President
DeGolyer and MacNaughton

12

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

CERTIFICATE of QUALIFICATION

I, Dilhan Ilk, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am an Executive Vice President with DeGolyer and MacNaughton, which firm did prepare this report of third party addressed to Epsilon dated **February 10, 2023**, **January 16, 2024**, and that I, as Executive Vice President, was responsible for the preparation of this report of third party.

2. That I attended Istanbul Technical University, and that I graduated with a Bachelor of Science degree in Petroleum Engineering in the year 2003, a Master of Science degree in Petroleum Engineering from Texas A&M University in 2005, and a Doctor **in** of Philosophy degree in Petroleum Engineering from Texas A&M University in 2010; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the Society of Petroleum Engineers; and that I have in excess of **12** **13** years of experience in oil and gas reservoir studies and reserves evaluations.

/s/ Dilhan Ilk **P.E.**

Dilhan Ilk, P.E.

Executive Vice President

DeGolyer and MacNaughton

13

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.