

REFINITIV

## DELTA REPORT

### 10-Q

EPSN - EPSILON ENERGY LTD.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 910

█ CHANGES 246

█ DELETIONS 360

█ ADDITIONS 304

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

**FORM 10-Q**

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

For the quarterly period ended **September 30, March 31, 2023**

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

For the transition period from to

Commission file number: 001-38770

**EPSILON ENERGY LTD.**

(Exact name of registrant as specified in its charter)

Alberta, Canada

98-1476367

(State or other jurisdiction of incorporation or organization)

(I.R.S Employer Identification No.)

500 Dallas Street, Suite 1250

Houston, Texas 77002

(281) 670-0002

(Address of principal executive offices including zip code and  
telephone number, including area code)

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

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

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

Yes  No

As of **November 8, 2023** **May 8, 2024**, there were **22,160,439** **21,921,850** Common Shares outstanding.

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**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report constitute forward-looking statements. The use of any of the words "anticipate," "continue," "estimate," "expect," "may," "will," "project," "should," "believe," and similar expressions and statements relating to matters that are not historical facts constitute "forward looking information" within the meaning of applicable securities laws. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated. Such forward-looking statements are based on reasonable assumptions, but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this report should not be unduly relied upon. These statements are made only as of the date of this report. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to natural gas and oil production rates, commodity prices for crude oil or natural gas, supply and demand for natural gas and oil; the estimated quantity of natural gas and oil reserves, including reserve life; future development and production costs, and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, and those described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider carefully the statements under Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023. Our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 is available on our website at [www.epsilonenergyltd.com](http://www.epsilonenergyltd.com).

**PART I-FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**EPSILON ENERGY LTD.**

**Unaudited Condensed Consolidated Balance Sheets**

	<b>September 30, 2023</b>	<b>December 31, 2022</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
<b>ASSETS</b>				
<i>Current assets</i>				
Cash and cash equivalents	\$ 12,498,051	\$ 45,236,584	\$ 2,308,633	\$ 13,403,628
Accounts receivable	4,006,278	7,201,386	5,061,734	6,015,448
Short term investments	18,870,468	—	12,238,177	18,775,106
Fair value of derivatives	—	1,222,090	1,347,512	1,219,025
Prepaid income taxes	1,954,788	1,140,094	1,020,702	952,301
Other current assets	920,224	632,154	619,542	763,288
Operating lease right-of-use assets	—	31,383		
Total current assets	38,249,809	55,463,691	22,596,300	41,128,796
<i>Non-current assets</i>				
<i>Property and equipment:</i>				
Oil and gas properties, successful efforts method				
Proved properties	154,190,226	148,326,265	180,452,860	160,263,511
Unproved properties	26,185,843	18,169,157	28,593,071	25,504,873
Accumulated depletion, depreciation, amortization and impairment	(111,142,288)	(107,729,293)	(115,782,946)	(113,708,210)
Total oil and gas properties, net	69,233,701	58,766,129	93,262,985	72,060,174
Gathering system	42,694,512	42,639,001	42,757,299	42,738,273
Accumulated depletion, depreciation, amortization and impairment	(35,241,595)	(34,500,740)	(35,788,907)	(35,539,996)
Total gathering system, net	7,452,917	8,138,261	6,968,392	7,198,277
Land	637,764	637,764	637,764	637,764
Buildings and other property and equipment, net	303,211	286,035	287,524	291,807
Total property and equipment, net	77,627,673	67,828,189	101,156,665	80,188,022
<i>Other assets:</i>				
Operating lease right-of-use assets, long term	468,833	—	417,268	441,987
Restricted cash	495,000	570,363	900,000	470,000
Fair value of derivatives, long term	42,005	—		
Prepaid drilling costs	2,891,250	—		1,813,808
Total non-current assets	81,524,761	68,398,552	102,473,933	82,913,817
<b>Total assets</b>	<b>\$ 119,774,570</b>	<b>\$ 123,862,243</b>	<b>\$ 125,070,233</b>	<b>\$ 124,042,613</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<i>Current liabilities</i>				
Accounts payable trade	\$ 1,855,591	\$ 1,695,353	\$ 3,215,137	\$ 3,236,871
Gathering fees payable	556,437	935,012	667,014	1,136,237
Royalties payable	1,241,533	2,223,043	1,201,478	1,422,898
Accrued capital expenditures	195,917	41,694	2,706,951	696,761
Accrued compensation	631,646	598,351	212,892	636,295
Other accrued liabilities	556,814	690,655	732,593	561,537
Fair value of derivatives	126,508	—	836,268	118,770
Operating lease liabilities	55,656	35,299	95,170	86,473
Total current liabilities	5,220,102	6,219,407	9,667,503	7,895,842

<b>Non-current liabilities</b>				
Asset retirement obligations	2,794,743	2,780,237	3,562,486	3,502,952
Deferred income taxes	11,805,453	10,617,394	11,530,950	11,553,943
Operating lease liabilities, long term	498,155	—	446,226	476,911
<b>Total non-current liabilities</b>	<b>15,098,351</b>	<b>13,397,631</b>	<b>15,539,662</b>	<b>15,533,806</b>
<b>Total liabilities</b>	<b>20,318,453</b>	<b>19,617,038</b>	<b>25,207,165</b>	<b>23,429,648</b>
<b>Commitments and contingencies (Note 10)</b>				
<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 22,126,800 shares issued and outstanding at September 30, 2023 and 23,117,144 issued and outstanding at December 31, 2022	118,209,690	123,904,965		
Common shares, no par value, unlimited shares authorized and 21,913,202 shares issued and outstanding at March 31, 2024 and 22,222,722 issued and 22,151,848 shares outstanding at December 31, 2023			116,708,531	118,272,565
Treasury shares, at cost, 0 at March 31, 2024 and 70,874 at December 31, 2023			—	(360,326)
Additional paid-in capital	10,655,378	9,856,229	11,196,060	10,874,491
Accumulated deficit	(39,158,820)	(39,290,540)	(37,809,555)	(37,946,042)
Accumulated other comprehensive income	9,749,869	9,774,551	9,768,032	9,772,277
<b>Total shareholders' equity</b>	<b>99,456,117</b>	<b>104,245,205</b>	<b>99,863,068</b>	<b>100,612,965</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 119,774,570</b>	<b>\$ 123,862,243</b>	<b>\$ 125,070,233</b>	<b>\$ 124,042,613</b>

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

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

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
<b>Revenues from contracts with customers:</b>						
Gas, oil, NGL, and condensate revenue	\$ 3,241,531	\$ 19,171,121	\$ 14,509,184	\$ 48,566,282	\$ 6,051,045	\$ 6,969,581
Gas gathering and compression revenue	3,068,996	2,072,806	7,657,755	6,180,747	1,935,698	2,386,695
<b>Total revenue</b>	<b>6,310,527</b>	<b>21,243,927</b>	<b>22,166,939</b>	<b>54,747,029</b>	<b>7,986,743</b>	<b>9,356,276</b>
<b>Operating costs and expenses:</b>						
Lease operating expenses	1,559,957	2,024,229	4,404,757	5,681,736	1,768,462	1,404,279
Gathering system operating expenses	631,725	600,672	1,854,000	1,666,275	552,570	651,341
Development geological and geophysical expenses	—	2,387	—	7,159		
Depletion, depreciation, amortization, and accretion	1,392,032	1,706,030	4,780,766	4,898,988	2,380,426	1,773,006
Loss (gain) on sale of oil and gas properties	—	—	1,449,871	(221,642)		
General and administrative expenses:						
Stock based compensation expense	439,653	500,597	799,149	836,949	321,569	179,748
Other general and administrative expenses	1,540,358	2,015,272	5,160,757	4,651,547	1,559,023	2,023,773

Total operating costs and expenses	5,563,725	6,849,187	18,449,300	17,521,012	6,582,050	6,032,147
<b>Operating income</b>	<b>746,802</b>	<b>14,394,740</b>	<b>3,717,639</b>	<b>37,226,017</b>	<b>1,404,693</b>	<b>3,324,129</b>
<b>Other income (expense):</b>						
Interest income	384,732	89,638	1,308,695	126,804	266,272	490,762
Interest expense	(8,760)	(17,501)	(71,619)	(33,565)	(8,760)	(28,437)
(Loss) gain on derivative contracts	(24,303)	(929,637)	1,672,535	(1,124,547)	(100,726)	1,068,660
Other income (expense), net	468	(32,777)	5,169	(99,896)	(533)	1,635
<b>Other income (expense), net</b>	<b>352,137</b>	<b>(890,277)</b>	<b>2,914,780</b>	<b>(1,131,204)</b>		
<b>Other income, net</b>					<b>156,253</b>	<b>1,532,620</b>
<b>Net income before income tax expense</b>	<b>1,098,939</b>	<b>13,504,463</b>	<b>6,632,419</b>	<b>36,094,813</b>	<b>1,560,946</b>	<b>4,856,749</b>
Income tax expense	710,164	3,896,010	2,283,228	10,097,484	54,050	1,326,922
<b>NET INCOME</b>	<b>\$ 388,775</b>	<b>\$ 9,608,453</b>	<b>\$ 4,349,191</b>	<b>\$ 25,997,329</b>	<b>\$ 1,506,896</b>	<b>\$ 3,529,827</b>
Currency translation adjustments	(846)	(34,524)	(2,317)	(48,272)	364	(2,600)
<b>Unrealized gain (loss) on securities</b>	<b>24,641</b>	<b>—</b>	<b>(22,365)</b>	<b>—</b>		
<b>Unrealized loss on securities</b>					<b>(4,609)</b>	<b>—</b>
<b>NET COMPREHENSIVE INCOME</b>	<b>\$ 412,570</b>	<b>\$ 9,573,929</b>	<b>\$ 4,324,509</b>	<b>\$ 25,949,057</b>	<b>\$ 1,502,651</b>	<b>\$ 3,527,227</b>
<b>Net income per share, basic</b>	<b>\$ 0.02</b>	<b>\$ 0.42</b>	<b>\$ 0.19</b>	<b>\$ 1.11</b>	<b>\$ 0.07</b>	<b>\$ 0.15</b>
<b>Net income per share, diluted</b>	<b>\$ 0.02</b>	<b>\$ 0.41</b>	<b>\$ 0.19</b>	<b>\$ 1.11</b>	<b>\$ 0.07</b>	<b>\$ 0.15</b>
<b>Weighted average number of shares outstanding, basic</b>	<b>22,118,984</b>	<b>23,011,729</b>	<b>22,616,539</b>	<b>23,419,666</b>	<b>21,994,207</b>	<b>22,990,893</b>
<b>Weighted average number of shares outstanding, diluted</b>	<b>22,178,686</b>	<b>23,169,658</b>	<b>22,631,550</b>	<b>23,524,574</b>	<b>21,994,207</b>	<b>23,027,684</b>

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

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

	Accumulated							Shareholders' Equity
	Common Shares Issued		Treasury Shares		Additional	Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	paid-in Capital	Income	Deficit	
<b>Balance at January 1, 2024</b>	<b>22,222,722</b>	<b>\$118,272,565</b>	<b>(70,874)</b>	<b>\$ (360,326)</b>	<b>\$10,874,491</b>	<b>\$9,772,277</b>	<b>(\$37,946,042)</b>	<b>\$100,612,965</b>
Net income	—	—	—	—	—	—	1,506,896	1,506,896
Dividends paid	—	—	—	—	—	—	(1,370,409)	(1,370,409)
Stock-based compensation expense	—	—	—	—	321,569	—	—	321,569
Buyback of common shares	—	—	(248,700)	(1,203,708)	—	—	—	(1,203,708)
Retirement of treasury shares	(319,574)	(1,564,034)	319,574	1,564,034	—	—	—	—
Vesting of shares of restricted stock	10,054	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(4,245)	—	(4,245)
<b>Balance at March 31, 2024</b>	<b>21,913,202</b>	<b>\$116,708,531</b>	<b>—</b>	<b>\$ —</b>	<b>\$11,196,060</b>	<b>\$9,768,032</b>	<b>(\$37,809,555)</b>	<b>\$ 99,863,068</b>

Accumulated		Total
Other		



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

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

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	Accumulated							Common Shares Shares
	Common Shares Issued		Treasury Shares		Additional	Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	paid-in Capital	Income	Deficit	
<b>Balance at January 1, 2022</b>	24,202,218	\$131,815,739	(534,015)	\$ (2,423,007)	\$ 8,835,203	\$ 9,818,605	\$(68,783,207)	\$ 79,263,333
<b>Balance at January 1, 2023</b>	23,117,144	\$123,904,965	—	\$—	\$—	\$—	\$—	\$—
Net income	—	—	—	—	—	—	5,805,888	5,805,888
Dividends paid	—	—	—	—	—	—	(1,483,027)	(1,483,027)
Stock-based compensation expense	—	—	—	—	142,302	—	—	142,302
Exercise of stock options	38,750	209,312	—	—	—	—	—	209,312
Buyback of common shares	—	—	—	—	—	—	—	—
Retirement of treasury shares	(534,015)	(2,423,007)	534,015	2,423,007	—	—	—	(190,700)
Other comprehensive income	—	—	—	—	—	5,402	—	5,402
<b>Balance at March 31, 2023</b>	23,706,953	\$129,602,044	—	\$—	\$ 8,977,505	\$ 9,824,007	\$(64,460,346)	\$ 83,943,210
Net income	—	—	—	—	—	—	10,582,988	10,582,988
Dividends paid	—	—	—	—	—	—	(1,486,650)	(1,486,650)

Stock-based compensation expense	—	—	—	—	194,050	—	—	194,050
Exercise of stock options	72,500	399,475	—	—	—	—	—	399,475
Buyback of common shares	—	—	(697,100)	(4,554,822)	—	—	—	(4,554,822)
Retirement of treasury shares	(423,000)	(2,907,999)	423,000	2,907,999	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(19,150)	—	(19,150)
<b>Balance at June 30, 2022</b>	<b>23,356,453</b>	<b>\$127,093,520</b>	<b>(274,100)</b>	<b>\$1,646,823</b>	<b>\$9,171,555</b>	<b>\$9,804,857</b>	<b>\$(55,364,008)</b>	<b>\$89,059,101</b>
Net income	—	—	—	—	—	—	9,608,453	9,608,453
Dividends paid	—	—	—	—	—	—	(1,453,043)	(1,453,043)
Stock-based compensation expense	—	—	—	—	500,597	—	—	500,597
Exercise of stock options	27,500	138,325	—	—	—	—	—	138,325
Buyback of common shares	—	—	(285,400)	(1,680,057)	—	—	—	(1,680,057)
Vesting of shares of restricted stock	187,155	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(34,524)	—	(34,524)
<b>Balance at September 30, 2022</b>	<b>23,571,108</b>	<b>\$127,231,845</b>	<b>(559,500)</b>	<b>\$3,326,880</b>	<b>\$9,672,152</b>	<b>\$9,770,333</b>	<b>\$(47,208,598)</b>	<b>\$96,138,852</b>
<b>Balance at March 31, 2023</b>							<b>22,926,444</b>	<b>\$125,380,384</b>

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

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**EPSILON ENERGY LTD.**  
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2024	2023
<b>Cash flows from operating activities:</b>				
Net income	\$ 4,349,191	\$ 25,997,329	\$ 1,506,896	\$ 3,529,827
Adjustments to reconcile net income to net cash provided by operating activities:				
Depletion, depreciation, amortization, and accretion	4,780,766	4,898,988	2,380,426	1,773,006
Accretion of discount on available for sale securities	(574,341)	—	(216,180)	—
Gain on available for sale securities	(60,494)	—		
Loss (gain) on sale of oil and gas properties	1,449,871	(221,642)		
(Gain) loss on derivative contracts	(1,672,535)	1,124,547		
Settlement received (paid) on derivative contracts	2,979,128	(1,396,698)		
Loss (gain) on derivative contracts			100,726	(1,068,660)
Settlement received on derivative contracts			488,285	363,300
Settlement of asset retirement obligation	(3,482)	(118,259)	(1,653)	—
Stock-based compensation expense	799,149	836,949	321,569	179,748
Deferred income tax expense (benefit)	1,188,059	439,857	(22,993)	(12,108)
<b>Changes in assets and liabilities:</b>				
Accounts receivable	3,195,108	(5,472,585)	953,714	2,396,066
Prepaid income taxes	(814,694)	—	(68,401)	—
Other assets and liabilities	(67,008)	(205,717)	146,477	143,646
Accounts payable, royalties payable and other accrued liabilities	(1,191,558)	1,511,652	(1,897,438)	(1,062,898)

Income taxes payable	—	2,021,246	—	1,336,225
<b>Net cash provided by operating activities</b>	<b>14,357,160</b>	<b>29,415,667</b>	<b>3,691,428</b>	<b>7,578,152</b>
<b>Cash flows from investing activities:</b>				
Additions to unproved oil and gas properties	(8,017,412)	(226,439)	(3,088,198)	(106,069)
Additions to proved oil and gas properties	(7,860,073)	(5,528,037)	(17,226,449)	(621,132)
Additions to gathering system properties	(52,069)	(129,985)	(22,650)	(12,423)
Additions to land, buildings and property and equipment	(49,689)	(13,258)	(7,681)	(42,703)
Purchases of short term investments	(32,812,974)	—		
Proceeds from short term investments	14,554,976	—		
Proceeds from sale of oil and gas properties	12,498	200,000		
Purchases of short term investments - available for sale			(4,045,785)	(30,138,743)
Proceeds from sales and maturities of short term investments			10,794,285	—
Prepaid drilling costs	(2,891,250)	—	1,813,808	—
<b>Net cash used in investing activities</b>	<b>(37,115,993)</b>	<b>(5,697,719)</b>	<b>(11,792,670)</b>	<b>(30,921,070)</b>
<b>Cash flows from financing activities:</b>				
Buyback of common shares	(5,695,275)	(6,234,879)	(1,203,708)	(1,367,425)
Exercise of stock options	—	747,112		
Dividends paid	(4,217,471)	(4,422,720)	(1,370,409)	(1,412,455)
Debt issuance costs	(140,000)	—		
<b>Net cash used in financing activities</b>	<b>(10,052,746)</b>	<b>(9,910,487)</b>	<b>(2,574,117)</b>	<b>(2,779,880)</b>
Effect of currency rates on cash, cash equivalents, and restricted cash	(2,317)	(48,272)	364	(2,600)
(Decrease) increase in cash, cash equivalents, and restricted cash	(32,813,896)	13,759,189	(10,664,995)	(26,125,398)
Cash, cash equivalents, and restricted cash, beginning of period	45,806,947	27,065,423	13,873,628	45,806,947
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 12,993,051</b>	<b>\$ 40,824,612</b>	<b>\$ 3,208,633</b>	<b>\$ 19,681,549</b>
<b>Supplemental cash flow disclosures:</b>				
Income taxes paid	\$ 1,442,304	\$ 7,626		
Interest paid	\$ 88,835	\$ 50,872	\$ —	\$ 17,216
<b>Non-cash investing activities:</b>				
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 41,947	\$ (194,391)	\$ 2,946,528	\$ 375,242
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 3,441	\$ 12,882	\$ (3,624)	\$ 9,201
Asset retirement obligation asset additions and adjustments	\$ 4,640	\$ 10,821	\$ 16,372	\$ 736

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

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**Epsilon Energy Ltd.**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

**1. Description of Business**

Epsilon Energy Ltd. (the "Company" or "Epsilon" or "we") was incorporated under the laws of the Province of Alberta, Canada on March 14, 2005. On October 24, 2007, pursuant to the Company became ABCA. Epsilon is a publicly traded entity trading on North American onshore focused independent natural gas and oil company engaged in the Toronto Stock Exchange ("TSX") in Canada, acquisition, development, gathering and production of natural gas and oil reserves. On February 14, 2019, Epsilon's registration statement on Form 10 was declared effective by the United States Securities and Exchange Commission and on February 19, 2019, we began trading in the United States on the

NASDAQ Global Market under the trading symbol "EPSN." 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

### Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the appropriate rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. All adjustments which are, in the opinion of management, necessary for a fair statement of the financial position and results of operations for the interim periods presented have been included. The interim financial information and notes hereto should be read in conjunction with the Company's consolidated financial statements as of and for the year ended **December 31, 2022** **December 31, 2023**. The results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

### Principles of Consolidation

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

### Use of Estimates

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

### 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.

### 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.

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### **Epsilon Energy Ltd.**

### **Notes to the Unaudited Condensed Consolidated Financial Statements**

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

companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the

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

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

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

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

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

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

[Table of Contents](#)**Epsilon Energy Ltd.****Notes to the Unaudited Condensed Consolidated Financial Statements****3. Cash, Cash Equivalents, and Restricted Cash**

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

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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the Consolidated Balance Sheets to the total of the amounts in the Consolidated Statements of Cash Flows as of **September 30, 2023** **March 31, 2024** and December 31 **2022**; **2023**:

	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 2,308,633	\$ 13,403,628
Restricted cash included in other assets	900,000	470,000
<b>Cash, cash equivalents, and restricted cash in the statement of cash flows</b>	<b>\$ 3,208,633</b>	<b>\$ 13,873,628</b>

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 12,498,051	\$ 45,236,584
Restricted cash included in other assets	495,000	570,363
<b>Cash, cash equivalents, and restricted cash in the statement of cash flows</b>	<b>\$ 12,993,051</b>	<b>\$ 45,806,947</b>

During the three months ended March 31, 2024, the Company was in the process of transitioning financial institutions for its Letters of Credit ("LOCs") tied to various bonds associated with Pennsylvania and New York operatorship. The transition caused a temporary increase in restricted cash until the new LOCs are deemed effective and until the previous LOCs can be cancelled.

**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** **are** classified as

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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.** Available-for-sale short term investments are reported at fair value in the Consolidated Balance Sheets. Unrealized gains and losses are excluded from earnings and are reported in accumulated other comprehensive income in the Consolidated Statements of Operations and Comprehensive Income.

The following table summarizes the available-for-sale short term investments as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** December 31, 2023.

	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
	Amortized	Unrealized	Fair	Amortized	Unrealized	Fair	Amortized	Unrealized	Fair	Amortized	Unrealized	
	Cost	Losses	Value	Cost	Losses	Value	Cost	Losses	Value	Cost	Gains	
<b>U.S.</b>												
<b>Treasury</b>												
<b>Bills</b>	<b>\$18,892,833</b>	<b>\$(22,365)</b>	<b>\$18,870,468</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$12,241,187</b>	<b>\$(3,010)</b>	<b>\$12,238,177</b>	<b>\$18,773,508</b>	<b>\$ 1,598</b>	<b>\$18</b>

During the **nine****three** months ended **September 30, 2023****March 31, 2024**, the Company sold securities with a carrying amount of **\$10,394,482****\$7,003,123** for total proceeds of **\$10,454,976****\$7,159,285**. The realized gains on these sales were **\$60,494****\$156,162**. An additional **\$4,100,000****\$3,635,000** of securities reached maturity with total realized gains of **\$97,333**. During the three months ended **September 30, 2023**, the Company sold securities with a carrying amount of **\$4,089,668** for total proceeds of **\$4,102,503**. The realized gains on these sales were **\$12,835**. These securities were sold to raise cash during the quarter to fund capital expenditures. An additional **\$4,100,000** of securities reached maturity with total realized gains of **\$97,333****\$135,034**. The realized gains are included in other income in the consolidated Statements of Operations and Comprehensive Income.

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#### **Epsilon Energy Ltd.**

#### **Notes to the Unaudited Condensed Consolidated Financial Statements**

##### **5. Property and Equipment**

The following table summarizes the Company's property and equipment as of **September 30, 2023****March 31, 2024** and **December 31, 2022****December 31, 2023**:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
<b>Property and equipment:</b>				
Oil and gas properties, successful efforts method				
Proved properties	\$ 154,190,226	\$ 148,326,265	\$ 180,452,860	\$ 160,263,511
Unproved properties	26,185,843	18,169,157	28,593,071	25,504,873
Accumulated depletion, depreciation, amortization and impairment	(111,142,288)	(107,729,293)	(115,782,946)	(113,708,210)
Total oil and gas properties, net	69,233,781	58,766,129	93,262,985	72,060,174
Gathering system				
Accumulated depletion, depreciation, amortization and impairment	(35,241,595)	(34,500,740)	(35,788,907)	(35,539,996)
Total gathering system, net	7,452,917	8,138,261	6,968,392	7,198,277
Land	637,764	637,764	637,764	637,764
Buildings and other property and equipment, net	303,211	286,035	287,524	291,807
<b>Total property and equipment, net</b>	<b>\$ 77,627,673</b>	<b>\$ 67,828,189</b>	<b>\$ 101,156,665</b>	<b>\$ 80,188,022</b>

#### **Asset Acquisitions**

During the **nine****three** months ended **September 30, 2023****March 31, 2024**, Epsilon made acquired assets that included the following three acquisitions:

- a 10% interest in two wells located in Eddy County, New Mexico for \$2.1 million.

- a 25% working interest in 1,297 gross acres three producing wells located in Ector County, Texas including the drilling of one well for \$3.7 million and a commitment for the completion of that well for \$1.6 million, Texas.

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**Epsilon Energy Ltd.**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

- a 25% working interest in 11,067 3,246 gross undeveloped acres in Ector County, Texas Texas.
- total consideration paid of \$14.8 million consisting of
  - (i) \$12.1 million for \$6.3 million, the producing wells and
  - (ii) \$2.7 million for the undeveloped acreage.

Management determined that substantially all the fair value of the assets acquired was concentrated in a group of similar identifiable assets. Based on this determination, the acquisition was accounted for as an asset acquisition. There were no acquisitions during the nine three months ended September 30, 2022.

**Property Sale**

During the nine months ended September 30, 2023, Epsilon sold two wellbore-only Oklahoma assets for \$12,498. This sale resulted in a loss of \$1.45 million. During the nine months ended September 30, 2022, Epsilon sold one wellbore-only Oklahoma asset for \$200,000. This sale resulted in a gain of \$0.22 million March 31, 2023.

**Property Impairment**

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

During the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, no impairment was recorded.

**6. Revolving Line of Credit**

The Company closed a senior secured reserve based revolving credit facility on June 28, 2023, with Frost Bank as issuing bank and sole lender. The new facility replaced the Company's previous facility. The initial current commitment and borrowing base is \$35 million, supported by the Company's upstream assets in Pennsylvania and subject to semi-annual redeterminations with a maturity date of the earlier of June 28, 2027 or the date that the commitments are terminated. The next redetermination will be December 1, 2023. Interest will be charged at the Daily Simple SOFR rate plus a margin

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**Epsilon Energy Ltd.**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

of 3.25%. The facility is secured by the assets of the Company's Epsilon Energy USA subsidiary (Borrower), and guaranteed by the Company and the other wholly owned subsidiaries. There are currently no borrowings under the facility.

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

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

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

We were in compliance with the financial covenants of the agreement as of **September 30, 2023** **March 31, 2024**.

Revolving line of credit	Balance at				Balance at					
	September 30,		December 31,		March 31,		December 31,			
	2023	2022	Current	Borrowing Base	Interest Rate	2024	2023	Current	Borrowing Base	Interest Rate
Revolving line of credit	\$ —	\$ —	\$ 35,000,000	SOFR + 3.25%	\$ —	\$ —	\$ 35,000,000	SOFR + 3.25%		

## 7. Shareholders' Equity

### (a) Authorized shares

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

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#### **Epsilon Energy Ltd.**

#### **Notes to the Unaudited Condensed Consolidated Financial Statements**

### (b) Purchases of Equity Shares

#### *Normal Course Issuer Bid*

On **March 9, 2023** **March 20, 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 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 commenced on **March 27, 2023** **March 27, 2024** and will 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.

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, no shares have been repurchased under the new program.

The previous share repurchase program commenced on **March 27, 2023** and ended on **March 26, 2024**. During the year ended **December 31, 2023**, we repurchased **897,275** **968,149** common shares at an average price of \$5.08 per share (excluding commissions) under the **new** **previous** plan.

The previous share repurchase program commenced on **March 8, 2022**. During the **year** **three months** ended **December 31, 2022** **March 31, 2024**, we repurchased **982,500** common **248,700** 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 at a 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 at an average price of **\$5.82** per share (excluding commissions) before the plan terminated on **March 7, 2023**.

During the nine months ended September 30, 2023, the Company repurchased 1,087,975 shares at an average price of \$5.21 \$4.82 per share (excluding commissions) under the two consecutive repurchase programs.

The following table contains activity relating to our acquisition of equity securities during the nine months ended September 30, 2023:

	Maximum number of shares		
	Total number of shares	Average price paid per share	remaining to be purchased under the program
	purchased		
<b>Beginning of normal-course issuer bid, March 8, 2022<sup>(1)</sup></b>			1,183,410
January 2023	125,200	\$ 5.96	
February 2023	65,500	\$ 5.63	
<b>Total as of March 7, 2023</b>	<b>190,700</b>	<b>\$ 5.82</b>	<b>10,210</b>
<b>Beginning of normal-course issuer bid, March 27, 2023<sup>(2)</sup></b>			2,292,644
March 2023	47,220	\$ 5.32	
April 2023	70,406	\$ 5.35	
May 2023	83,097	\$ 5.11	
June 2023	171,552	\$ 5.13	
July 2023	525,000	\$ 5.00	
<b>Total as of September 30, 2023</b>	<b>897,275</b>	<b>\$ 5.08</b>	<b>1,395,369</b>

<sup>(1)</sup> Epsilon repurchased these shares under its 2022-2023 share repurchase program that commenced on March 8, 2022 and terminated on March 7, 2023, as described above.

<sup>(2)</sup> Epsilon repurchased these shares under its 2023-2024 share repurchase program that commenced on March 27, 2023, as described above.

**(c) Equity Incentive Plan**

Epsilon's board of directors (the "Board") adopted the 2020 Equity Incentive Plan (the "2020 Plan") on July 22, 2020 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 had determined that it was 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 previous plan.

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**Epsilon Energy Ltd.**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

**Compensation** The following table contains activity relating to our acquisition of equity securities during the three months ended March 31, 2024:

	Maximum number of shares		
	Total number of shares	Average price paid per share	remaining to be purchased under the program
	purchased		
<b>Beginning of normal-course issuer bid, March 27, 2023<sup>(1)</sup></b>			1,324,495
January 2024	248,700	\$ 4.82	
<b>Total as of March 31, 2024</b>	<b>248,700</b>	<b>\$ 4.82</b>	<b>1,075,795</b>

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

### **(c) Equity Incentive Plan**

Epsilon's board of directors (the "Board") adopted the 2020 Equity Incentive Plan (collectively referred to as the "2020 Plan") on July 22, 2020 and Epsilon's shareholders approved the "Predecessor Plans" 2020 Plan at Epsilon's 2020 Annual General and Special Meeting of Shareholders, which occurred on September 1, 2020 (the "Meeting"). 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 will be authorized to issue up to 2,000,000 Common Shares.

#### *Restricted Stock Awards*

For the **nine** three months ended **September 30, 2023** **March 31, 2024**, **144,564** shares of **Restricted Stock** **63,980** restricted stock units with a weighted average **market** price at the grant date of **\$5.92** **\$5.08** were awarded to the Company's board of **directors** and **employees**. **directors**. For the year ended **December 31, 2022** **December 31, 2023**, **289,231** common shares of **Restricted Stock** **358,546** restricted stock units with a weighted average **market** price at the grant date of **\$6.28** **\$5.42** were awarded to the Company's **officers**, **management**, **employees**, and board of **directors**. These **shares** **units** vest over a **three** or **four-year** **three-year** period, with an equal number of **common** shares being issued per period on the anniversary of the award resolution. The vesting of the **shares** **units** ( and **corresponding issuance of shares**) is contingent on the individuals' continued employment or service. The Company determined the fair value of the granted **Restricted Stock-based** **restricted stock units** based on the market price of the common shares of the Company on the date of grant.

The following table summarizes **Restricted Stock** **restricted stock unit** activity for the **nine** three months ended **September 30, 2023** **March 31, 2024**, and the year ended **December 31, 2022** **December 31, 2023**:

		Nine months ended		Year ended		Three months ended		Year ended	
		September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
		Number of Restricted Shares	Weighted Average Remaining Life (years)						
		Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding
<b>Balance</b>	<b>non-vested</b>								
<b>Restricted</b>	<b>Stock</b>								
<b>at</b>									
<b>beginning of period</b>		298,210	1.74	166,002	1.38	491,536	1.74	298,210	1.74
Granted		144,564	1.75	289,231	1.86	63,980	1.87	358,546	1.90
Vested		(97,631)	—	(157,023)	—	(10,064)	—	(165,220)	—
<b>Balance</b>	<b>non-vested</b>								
<b>Restricted Stock</b>	<b>at end of</b>								
<b>period</b>		345,143	1.49	298,210	1.74	545,452	1.53	491,536	1.74

Stock compensation expense for the granted **Restricted Stock** **restricted stock units** is recognized over the vesting period. Stock compensation expense recognized during the **three** and **nine** months ended **September 30, 2023** **March 31, 2024** and **2023** was **\$424,969** **\$321,569** and **\$755,097**, respectively (for the **three** and **nine** months ended **September 30, 2022**, **\$366,763** and **\$608,735**, respectively) **\$165,064**, respectively.

At **September 30, 2023** **March 31, 2024**, the Company had unrecognized stock-based compensation related to **these shares** the restricted stock units of **\$1,769,257** **\$2,655,308** to be recognized over a weighted average period of **1.38** **1.33** years (at **December 31, 2022** **December 31, 2023**: **\$1,668,564** **\$2,651,858** over **1.55** **1.42** years).

#### *Performance Share Unit Awards ("PSU")*

For the nine months ended September 30, 2023, no PSUs vested and were issued. For the year ended December 31, 2022, a total of 135,667 common shares vested and were issued. Previously granted 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 Performance Peer Group 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) 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) the actual share count at year end.

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

- 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 Performance Share Unit Awards ("PSU")

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

The following table summarizes PSUs for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and the year ended **December 31, 2022** **December 31, 2023**:

	Nine months ended		Year ended		Three months ended		Year ended	
	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	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)
<b>Balance non-vested PSUs at beginning of period</b>	15,833	1.00	151,500	3.84	—	—	15,833	1.00
Vested	—	—	(135,667)	—	—	—	(15,833)	—
<b>Balance non-vested PSUs at end of period</b>	<b>15,833</b>	<b>0.25</b>	<b>15,833</b>	<b>1.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Stock compensation expense for the granted PSUs is recognized over the vesting period. Stock compensation expense recognized during the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2023** related to PSUs was **\$0** and **\$14,684**, and **\$44,052**, respectively (for the three and nine months ended September 30, 2022, \$133,834 and \$228,214, respectively), respectively.

At **September 30, 2023** **March 31, 2024** and **December 31, 2023**, the Company had **no** unrecognized stock-based compensation related to these shares of **\$14,684** to be recognized over a weighted average period of **0.25** years (at **December 31, 2022**: **\$63,328** over **0.63** years). **PSUs**.

#### Stock Options

As of **September 30, 2023** **March 31, 2024**, the Company had **no** outstanding stock options covering 70,000 Common Shares at an overall average exercise price of \$5.03 per Common Share to directors, officers, options. During the three months ended March 31, 2024 and employees of the year ended December 31, 2023, the Company and its subsidiaries. These 70,000 options have a weighted average expected remaining term of approximately 0.30 years. awarded no stock options.

The following table summarizes stock option activity for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and the year ended **December 31, 2022** **December 31, 2023**:

	Nine months ended		Year ended		Three months ended		Year ended	
	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Weighted		Weighted		Weighted		Weighted	
	Number of Options	Average	Number of Options	Average	Number of Options	Average	Number of Options	Average
Exercise price in US\$	Outstanding	Price	Outstanding	Price (1)	Outstanding	Price	Outstanding	Price (1)
<b>Balance at beginning of period</b>	70,000	\$ 5.03	218,750	\$ 5.28	57,500	\$ 5.03	70,000	\$ 5.03
Exercised	—	\$ —	(138,750)	\$ 5.38	—	\$ —	(12,500)	\$ 5.03
Expired/Forfeited	—	\$ —	(10,000)	\$ 5.51	(57,500)	\$ —	—	\$ —
<b>Balance at period-end</b>	<b>70,000</b>	<b>\$ 5.03</b>	<b>70,000</b>	<b>\$ 5.03</b>	<b>—</b>	<b>\$ —</b>	<b>57,500</b>	<b>\$ 5.03</b>
<b>Exercisable at period-end</b>	<b>70,000</b>	<b>\$ 5.03</b>	<b>70,000</b>	<b>\$ 5.03</b>	<b>—</b>	<b>\$ —</b>	<b>57,500</b>	<b>\$ 5.03</b>

At **September 30, 2023** **March 31, 2024**, the Company had unrecognized stock-based compensation, related to these options, of nil (at **December 31, 2022** **December 31, 2023**: nil). The aggregate intrinsic value at **September 30, 2023** **March 31, 2024** was **\$17,500** nil (at **December 31, 2022** **December 31, 2023**: **\$112,000** **\$5,500**).

During

**(d) Dividends**

On March 1, 2024, the **nine** Board declared quarterly a dividend of \$0.0625 per common share (annualized \$0.25 per common share) totaling in aggregate an amount of approximately \$1.4 million that has been paid for the **three** months ended **September 30, 2023** and the year ended December 31, 2022, the Company awarded no stock options, **March 31, 2024**.

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**Epsilon Energy Ltd.**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

**(d) Dividends**

On March 3, 2023, June 6, 2023 and August 29, 2023, the Board declared quarterly dividends of \$0.0625 per common share (annualized \$0.25 per common share) totaling in aggregate an amount of approximately \$4.3 million that has been paid for the **nine** months ended **September 30, 2023**.

**8. Revenue Recognition**

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

Overall, product sales revenue generally is recorded in the month when contractual delivery obligations are satisfied, which occurs when control is transferred to the Company's customers at delivery points based on contractual terms and conditions. In addition, gathering and compression revenue generally is recorded in the month when contractual service obligations are satisfied, which occurs as control of those services is transferred to the Company's customers. **Gathering System revenues derived from Epsilon's production, which have been eliminated from total gathering system revenues ("elimination entry"), amounted to \$0.3 million and \$0.4 million, respectively, for the three months ended March 31, 2024 and 2023.**

The following table details revenue for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023.

	Three months ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023		2022		2024	
	2023	2022	2023	2022	2024	2023
<b>Operating revenue</b>						
Natural gas	\$ 2,088,745	\$ 17,893,822	\$ 11,351,618	\$ 44,581,254	\$ 2,962,979	\$ 6,256,178
Natural gas liquids	228,012	497,843	669,295	1,500,668	372,984	196,295
Oil and condensate	924,774	779,456	2,488,271	2,484,360	2,715,082	517,108
Gathering and compression fees (1)	3,068,996	2,072,806	7,657,755	6,180,747	1,935,698	2,386,695
<b>Total operating revenue</b>	<b>\$ 6,310,527</b>	<b>\$ 21,243,927</b>	<b>\$ 22,166,939</b>	<b>\$ 54,747,029</b>	<b>\$ 7,986,743</b>	<b>\$ 9,356,276</b>

(1) Net of the elimination entry

#### Product Sales Revenue

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

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

#### Gas Gathering and Compression Revenue

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

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

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##### Epsilon Energy Ltd.

##### Notes to the Unaudited Condensed Consolidated Financial Statements

###### Allowance for Credit Losses

The Company records an allowance for credit losses on a case-by-case basis once there is evidence that collection is not probable. For the three and nine months ended September 30, 2023 March 31, 2024, there were no accounts for which collection was not probable.

The following table details accounts receivable as of September 30, 2023 March 31, 2024, December 31, 2022, December 31, 2023, and December 31, 2021 December 31, 2022.

September 30,	December 31,	December 31,	March 31,	December 31,	December 31,
2023	2022	2021	2024	2023	2022

Accounts receivable						
Natural gas and oil sales	\$ 2,053,428	\$ 5,696,419	\$ 2,996,344	\$3,637,018	\$4,327,886	\$5,696,419
Joint interest billing	17,476	20,454	60,134	14,349	17,476	20,454
Gathering and compression fees	1,449,103	1,483,956	1,539,976	1,281,742	1,543,239	1,483,956
Commodity contract	417,260	—	—	128,625	72,075	—
Interest	69,011	557	477	—	54,772	557
<b>Total accounts receivable</b>	<b>\$ 4,006,278</b>	<b>\$ 7,201,386</b>	<b>\$ 4,596,931</b>	<b>\$5,061,734</b>	<b>\$6,015,448</b>	<b>\$7,201,386</b>

## 9. Income Taxes

Income tax provisions for the three ended **March 31, 2024** and **nine months ended September 30, 2023** and **2022** are as follows:

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
<b>Current:</b>						
Foreign					\$ 66,268	\$ —
Federal	\$ (105,913)	\$ 2,566,416	\$ 940,873	\$ 6,564,117	—	\$ 960,508
State	(141,655)	1,209,063	154,296	3,093,510	10,775	378,522
Total current income tax expense	(247,568)	3,775,479	1,095,169	9,657,627	77,043	1,339,030
<b>Deferred:</b>						
Federal	762,495	98,367	1,140,543	353,980	377,599	(17,278)
State	195,237	22,164	47,516	85,877	(400,592)	5,170
Total deferred tax expense	957,732	120,531	1,188,059	439,857	(22,993)	(12,108)
<b>Income tax expense</b>	<b>\$ 710,164</b>	<b>\$ 3,896,010</b>	<b>\$ 2,283,228</b>	<b>\$ 10,097,484</b>	<b>\$ 54,050</b>	<b>\$ 1,326,922</b>

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

The Company believes it has no uncertain income tax positions. The Company's tax returns are open to audit under the statute of limitations for the years ending **December 31, 2019** **December 31, 2020** through **December 31, 2022** **December 31, 2023**. To the extent we utilize net operating losses generated in earlier years, such earlier years may also be subject to audit.

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

Our effective tax rate will typically differ from the statutory federal rate primarily as a result of state income taxes and the valuation allowance against the Canadian net operating loss. The effective tax rate for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** was **higher** **lower** than the statutory federal rate **primarily** as a result of **the** state income taxes **and** **U.S.** **dividend** **withholding** **taxes** **on** **distributions** **to** **Epsilon** **Energy** **Ltd.** **partially** **offset** **by** **the** **valuation** **allowance** **against** **the** **Canadian** **net** **operating** **loss.**

## 10. Commitments and Contingencies

The Company enters into commitments for capital expenditures in advance of the expenditures being made. As of **September 30, 2023** **March 31, 2024**, the Company had **no** **commitments** **of** **\$3.6** **million** for capital expenditures.

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

#### 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 claimed that Chesapeake has breached a settlement agreement and several operating agreements ("JOAs") to which Epsilon and Chesapeake are parties. Epsilon asserts asserted that Chesapeake has failed to cooperate with Epsilon's efforts to develop resources in the Auburn Development, located in 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 the District Court's rulings in the case. Following the Third Circuit's ruling to remand the case back to District court, Epsilon has sought and was granted a dismissal of the case without prejudice in September 2023.

## 11. Leases

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
<b>Asset</b>				
Operating lease right-of-use assets	\$ -	\$ 31,383		
Operating lease right-of-use assets, long term	468,833	-	417,268	441,987
Total operating lease right-of-use assets	<u>\$ 468,833</u>	<u>\$ 31,383</u>	<u>\$417,268</u>	<u>\$ 441,987</u>
<b>Liabilities</b>				
Operating lease liabilities	\$ 55,656	\$ 35,299	\$ 95,170	\$ 86,473
Operating lease liabilities, long term	498,155	-	446,226	476,911
Total operating lease liabilities	<u>\$ 553,811</u>	<u>\$ 35,299</u>	<u>\$541,396</u>	<u>\$ 563,384</u>
Operating lease costs	\$ 108,071	\$ 32,097	\$ 58,670	\$ 144,490
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 27,010	\$ 106,798	\$ 63,267	\$ 27,010
Right-of-use assets obtained in exchange for new operating lease liabilities			\$ -	\$ 535,149
Weighted average remaining lease term (years) - operating lease	3.14	0.33	2.89	3.00
Weighted average discount rate (annualized) - operating lease	8.25%	8.09%	8.25%	8.25%

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### Epsilon Energy Ltd.

#### Notes to the Unaudited Condensed Consolidated Financial Statements

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 **\$0.11 million** **\$0.06 million** and **\$0.03 million** **\$0.14**

million as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively. This lease expense is presented in other general and administrative expenses in the consolidated statements of operations and comprehensive income.

Future minimum lease payments as of **September 30, 2023** **March 31, 2024** are as follows:

	Operating Leases	Operating Leases
2023	\$ —	—
2024	134,750	\$ 101,062
2025	173,550	173,550
2026	177,021	177,021
2027	180,492	180,492
Thereafter	183,963	—
2028		183,963
Total minimum lease payments	849,776	816,088
Less: imputed interest	(295,965)	(274,692)
Present value of future minimum lease payments	553,811	541,396
Less: current obligations under leases	(55,656)	(95,170)
Long-term lease obligations	\$ 498,155	\$ 446,226

## 12. Net Income Per Share

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

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

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Net income	\$ 388,775	\$ 9,608,453	\$ 4,349,191	\$ 25,997,329	\$ 1,506,896	\$ 3,529,827

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

	Three months ended March 31,			
	2024	2023	2024	2023
Basic weighted-average number of shares outstanding	21,994,207	22,990,893	—	—
Dilutive stock options	—	8,512	—	—
Unvested time-based restricted shares	—	21,415	—	—
Unvested performance-based restricted shares	—	6,864	—	—
Diluted weighted-average shares outstanding	21,994,207	23,027,684	—	—

	Three months ended September 30,			
	2023	2022	2023	2022
Basic weighted-average number of shares outstanding	22,118,984	23,011,729	22,616,539	23,419,666
Dilutive stock options	6,786	15,914	5,865	14,725
Unvested time-based restricted shares	41,037	104,525	—	—
Unvested performance-based restricted shares	11,879	37,490	9,146	90,183
Diluted weighted average shares outstanding	22,178,686	23,169,658	22,631,550	23,524,574

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

	Three months ended March 31,			
	2024	2023	2024	2023
	—	—	—	—

Anti-dilutive options	—	61,488
Anti-dilutive unvested time-based restricted shares	546,245	276,795
Anti-dilutive unvested performance-based restricted shares	—	8,969
Total Anti-dilutive shares	<u>546,245</u>	<u>347,252</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Anti-dilutive options	63,214	54,086	64,135	77,870
Anti-dilutive unvested time-based restricted shares	355,788	240,526	327,300	169,127
Anti-dilutive unvested performance-based restricted shares	3,954	22,445	6,687	41,319
Total Anti-dilutive shares	<u>422,956</u>	<u>317,057</u>	<u>398,122</u>	<u>288,316</u>

**13. Operating Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive management. Segment performance is evaluated based on operating income (loss) as shown in the table below. Interest income and expense, and income taxes are managed separately on a group basis. As of September 30, 2023, general and administrative costs and interest income were moved to the Corporate segment because they are entirely comprised of corporate expenses and are not allocated to the Upstream and Gas Gathering segments. To be consistent with this current presentation, the general administrative costs and interest income for the three and nine months ended September 30, 2022 has been reclassified as well.

The Company's reportable segments are as follows:

- The Upstream segment activities include acquisition, development and production of oil, natural gas, and other liquid 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 general and administrative costs, interest income, and corporate listing and governance functions of the Company.

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Segment activity as of, and for the nine months ended September 30, 2023 and 2022 is as follows:

	Upstream	Gas Gathering	Corporate	Elimination	Consolidated

As of and for the nine months ended September 30, 2023						
<b>Operating revenue</b>						
Natural gas	\$ 11,351,618	\$ —	\$ —	\$ —	\$ —	\$ 11,351,618
Natural gas liquids	669,295	—	—	—	—	669,295
Oil and condensate	2,488,271	—	—	—	—	2,488,271
Gathering and compression fees	—	8,694,987	—	(1,037,232)	—	7,657,755
<b>Total operating revenue (1)</b>	<b>14,509,184</b>	<b>8,694,987</b>	<b>—</b>	<b>(1,037,232)</b>	<b>—</b>	<b>22,166,939</b>
<b>Operating costs</b>						
Operating costs	6,891,860	1,854,030	5,959,876	(1,037,232)	—	13,668,534
Depletion, depreciation, amortization and accretion	4,034,760	746,006	—	—	—	4,780,766
<b>Operating income (loss)</b>	<b>3,582,564</b>	<b>6,094,951</b>	<b>(5,959,876)</b>	<b>—</b>	<b>—</b>	<b>3,717,639</b>
<b>Other income (expense)</b>						
Interest income	—	—	1,308,695	—	—	1,308,695
Interest expense	(71,619)	—	—	—	—	(71,619)
Gain on derivative contracts	1,672,535	—	—	—	—	1,672,535
Other income	4,083	—	1,086	—	—	5,169
<b>Other income (expense), net</b>	<b>1,604,999</b>	<b>—</b>	<b>1,309,781</b>	<b>—</b>	<b>—</b>	<b>2,914,780</b>
<b>Net income (loss) before income tax expense</b>	<b>\$ 5,187,563</b>	<b>\$ 6,094,951</b>	<b>\$ (4,650,095)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6,632,419</b>
<b>Segment assets</b>						
Current assets, net	\$ —	\$ —	\$ 38,786,814	\$ —	\$ —	\$ 38,786,814
Proved properties	43,047,938	—	—	—	—	43,047,938
Unproved properties	26,185,843	—	—	—	—	26,185,843
Gathering system	—	7,452,917	—	—	—	7,452,917
Other property and equipment	3,832,225	—	—	—	—	3,832,225
Operating lease right-of-use asset	—	—	468,833	—	—	468,833
<b>Total segment assets</b>	<b>\$ 73,066,006</b>	<b>\$ 7,452,917</b>	<b>\$ 39,255,647</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 119,774,570</b>
As of and for the nine months ended September 30, 2022						
<b>Operating revenue</b>						
Natural gas	\$ 44,581,254	\$ —	\$ —	\$ —	\$ —	\$ 44,581,254
Natural gas liquids	1,500,668	—	—	—	—	1,500,668
Oil and condensate	2,484,360	—	—	—	—	2,484,360
Gathering and compression fees	—	7,290,507	—	(1,109,760)	—	6,180,747
<b>Total operating revenue (1)</b>	<b>48,566,282</b>	<b>7,290,507</b>	<b>—</b>	<b>(1,109,760)</b>	<b>—</b>	<b>54,747,029</b>
<b>Operating costs</b>						
Operating costs	6,577,013	1,666,275	5,488,496	(1,109,760)	—	12,622,024
Depletion, depreciation, amortization and accretion	4,075,282	823,706	—	—	—	4,898,988
<b>Operating income (loss)</b>	<b>37,913,987</b>	<b>4,800,526</b>	<b>(5,488,496)</b>	<b>—</b>	<b>—</b>	<b>37,226,017</b>
<b>Other income (expense)</b>						
Interest income	—	—	126,804	—	—	126,804
Interest expense	(33,565)	—	—	—	—	(33,565)
Loss on derivative contracts	(1,124,547)	—	—	—	—	(1,124,547)
Other (expense) income	(100,315)	—	419	—	—	(99,896)
<b>Other income (expense), net</b>	<b>(1,258,427)</b>	<b>—</b>	<b>127,223</b>	<b>—</b>	<b>—</b>	<b>(1,131,204)</b>
<b>Net income (loss) before income tax expense</b>	<b>\$ 36,655,560</b>	<b>\$ 4,800,526</b>	<b>\$ (5,361,273)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 36,094,813</b>
<b>Segment assets</b>						
Current assets, net	\$ —	\$ —	\$ 51,702,041	\$ —	\$ —	\$ 51,702,041

Proved properties	40,738,961	—	—	—	40,738,961
Unproved properties	18,085,385	—	—	—	18,085,385
Gathering system	—	8,355,116	—	—	8,355,116
Other property and equipment	933,210	—	—	—	933,210
<b>Total segment assets</b>	<b>\$ 59,757,556</b>	<b>8,355,116</b>	<b>51,702,041</b>	<b>—</b>	<b>119,814,713</b>

<sup>(1)</sup> Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the nine months ended September 30, 2023 and 2022 have been eliminated upon consolidation. For the nine months ended September 30, 2023, Epsilon sold natural gas to 34 unique customers. The one customer over 10% comprised 20% of total revenue. For the nine months ended September 30, 2022, Epsilon sold natural gas to 26 unique customers. The two customers over 10% comprised 34% and 12% of total revenue.

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Segment activity for the three months ended September 30, 2023 March 31, 2024 and 2022 is as follows:

	Upstream	Gas Gathering	Corporate	Elimination	Consolidated	Upstream	Gas Gathering	Corporate	Elimination	Consolidated
<b>For the three months ended September 30, 2023</b>										
<b>For the three months ended March 31, 2024</b>										
<b>Operating revenue</b>										
Natural gas	\$ 2,088,745	\$ —	\$ —	\$ —	\$ 2,088,745	\$ 2,962,979	\$ —	\$ —	\$ —	\$ —
Natural gas liquids	228,012	—	—	—	228,012	372,984	—	—	—	—
Oil and condensate	924,774	—	—	—	924,774	2,715,082	—	—	—	—
Gathering and compression fees	—	3,366,370	—	(297,374)	3,068,996	—	2,250,096	—	(314,398)	—
<b>Total operating revenue (1)</b>	<b>3,241,531</b>	<b>3,366,370</b>	<b>—</b>	<b>(297,374)</b>	<b>6,310,527</b>	<b>6,051,045</b>	<b>2,250,096</b>	<b>—</b>	<b>(314,398)</b>	<b>—</b>
<b>Operating costs</b>										
Operating costs	1,857,331	631,725	1,980,011	(297,374)	4,171,693	2,082,860	552,570	1,880,592	(314,398)	—
Depletion, depreciation, amortization and accretion	1,175,402	216,630	—	—	1,392,032	2,129,709	250,717	—	—	—
<b>Operating income (loss)</b>	<b>208,798</b>	<b>2,518,015</b>	<b>(1,980,011)</b>	<b>—</b>	<b>746,802</b>	<b>1,838,476</b>	<b>1,446,809</b>	<b>(1,880,592)</b>	<b>—</b>	<b>—</b>
<b>Other income (expense)</b>										
Interest income	—	—	384,732	—	384,732	—	—	266,272	—	—
Interest expense	(8,760)	—	—	—	(8,760)	(8,760)	—	—	—	—
Loss on derivative contracts	(24,303)	—	—	—	(24,303)	(100,726)	—	—	—	—
Other income	369	—	99	—	468	37	—	(570)	—	—
<b>Other income (expense), net</b>	<b>(32,694)</b>	<b>—</b>	<b>384,831</b>	<b>—</b>	<b>352,137</b>	<b>(109,449)</b>	<b>—</b>	<b>265,702</b>	<b>—</b>	<b>—</b>
<b>Net income (loss) before income tax expense</b>	<b>\$ 176,104</b>	<b>\$ 2,518,015</b>	<b>\$(1,595,180)</b>	<b>\$ —</b>	<b>\$ 1,098,939</b>	<b>\$ 1,729,027</b>	<b>\$ 1,446,809</b>	<b>\$(1,614,890)</b>	<b>\$ —</b>	<b>—</b>
<b>Capital expenditures (2)</b>										
Capital expenditures (2)	\$12,450,319	\$ 12,880	\$ —	\$ —	\$ 12,463,199	\$23,268,856	\$ 19,026	\$ —	\$ —	\$ —
<b>For the three months ended September 30, 2022</b>										
<b>For the three months ended March 31, 2023</b>										
<b>Operating revenue</b>										
Natural gas	\$17,893,822	\$ —	\$ —	\$ —	\$ 17,893,822	\$ 6,256,178	\$ —	\$ —	\$ —	\$ —
Natural gas liquids	497,843	—	—	—	497,843	196,295	—	—	—	—
Oil and condensate	779,456	—	—	—	779,456	517,108	—	—	—	—
Gathering and compression fees	—	2,447,669	—	(374,863)	2,072,806	—	2,750,503	—	(363,808)	—

<b>Total operating revenue (1)</b>	19,171,121	2,447,669	—	(374,863)	21,243,927	6,969,581	2,750,503	—	(363,808)
<b>Operating costs</b>									
Operating costs	2,401,479	600,672	2,515,869	(374,863)	5,143,157	1,768,087	651,371	2,203,491	(363,808)
Depletion, depreciation, amortization and accretion	1,436,870	269,160	—	—	1,706,030	1,493,755	279,251	—	—
<b>Operating income (loss)</b>	<b>15,332,772</b>	<b>1,577,837</b>	<b>(2,515,869)</b>	<b>—</b>	<b>14,394,740</b>	<b>3,707,739</b>	<b>1,819,881</b>	<b>(2,203,491)</b>	<b>—</b>
<b>Other income (expense)</b>									
Interest income	—	—	89,638	—	89,638	—	—	490,762	—
Interest expense	(17,501)	—	—	—	(17,501)	(28,437)	—	—	—
Loss on derivative contracts	(929,637)	—	—	—	(929,637)	1,068,660	—	—	—
Other (expense) income	(37,527)	—	4,750	—	(32,777)	652	—	983	—
<b>Other income (expense), net</b>	<b>(984,665)</b>	<b>—</b>	<b>94,388</b>	<b>—</b>	<b>(890,277)</b>	<b>1,040,875</b>	<b>—</b>	<b>491,745</b>	<b>—</b>
<b>Net income (loss) before income tax expense</b>	<b>\$14,348,107</b>	<b>\$ 1,577,837</b>	<b>\$ (2,421,481)</b>	<b>\$ —</b>	<b>\$ 13,504,463</b>	<b>\$ 4,748,614</b>	<b>\$ 1,819,881</b>	<b>\$ (1,711,746)</b>	<b>\$ —</b>
<b>Capital expenditures (2)</b>	<b>\$ 1,390,908</b>	<b>\$ 76,016</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,466,924</b>	<b>\$ 1,145,146</b>	<b>\$ 21,624</b>	<b>\$ —</b>	<b>\$ —</b>

(1) Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the three months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** have been eliminated upon consolidation. For the three months ended **September 30, 2023** **March 31, 2024**, Epsilon sold natural gas to **28** **23** unique customers. The two customers over 10% comprised **36%** **25%** and **24%** **12%** of total revenue. For the three months ended **September 30, 2022** **March 31, 2023**, Epsilon sold natural gas to **17** **27** unique customers. The **seven** **three** customers over 10% comprised **13.5%** **12%**, **13.29%**, **13.27%**, **11.04%**, **10.84%**, **10.51%** **13%**, and **10.25%** **11%** of total revenue.

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

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#### 14. Commodity Risk Management Activities

##### Commodity Price Risks

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

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

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

Epsilon has historically elected not to designate any of its financial commodity derivative contracts as accounting hedges and, accordingly, accounts for these financial commodity derivative contracts using the mark-to-market accounting method. Under this accounting method, changes in the fair value of outstanding financial instruments are recognized as gains or losses in the period of change and are recorded as *gain (loss) on derivative contracts* on the condensed consolidated statements of operations and comprehensive income (loss).

The related cash flow impact is reflected in cash flows from operating activities. During the three and nine months ended **September 30, 2023** **March 31, 2024**, Epsilon recognized (losses) gains losses on commodity derivative contracts of **(\$24,303)** and **\$1,672,535**, respectively. **\$100,727**. This amount included cash received on settlements on these contracts of **\$1,346,270** and **\$2,979,128** for the three and nine months ended **September 30, 2023**, respectively. **\$488,285**. For the three and nine months ended **September 30, 2022** **March 31, 2023**, Epsilon recognized losses gains on commodity derivative contracts of **\$929,637** and **\$1,124,547**, respectively. **\$1,068,660**. This amount included cash paid received on settlements on these contracts of **\$21,410** and **\$1,396,698** for the three and nine months ended **September 30, 2022**, respectively. **\$363,300**.

#### **Commodity Derivative Contracts**

At **September 30, 2023** **March 31, 2024**, the Company had outstanding natural gas NYMEX Henry Hub ("HH") swaps totaling **1.45** **1.84** Bcf, and natural gas Tennessee Z4 basis swaps totaling **1.45** **1.69** Bcf, outstanding, and crude oil NYMEX WTI CMA swaps totaling 58 MBbls.

	Fair Value of Derivative		Fair Value of Derivative	
	Assets		Assets	
	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
<b>Current</b>				
NYMEX Henry Hub swap	\$ 102,027	\$ 1,219,865	\$ 1,416,662	\$ 1,353,668
Tennessee Z4 basis swap	72,981	181,775	7,638	112,719
<b>Long-term</b>				
Basis swap	70,138	—	—	—
	<b>\$ 245,146</b>	<b>\$ 1,401,640</b>	<b>\$ 1,424,300</b>	<b>\$ 1,466,386</b>

	Fair Value of Derivative		Fair Value of Derivative	
	Liabilities		Liabilities	
	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023
<b>Current</b>				
NYMEX Henry Hub swap	\$ (47,585)	\$ —	—	—
Tennessee Z4 Basis swap	(528,944)	(366,131)	—	—
Crude Oil NYMEX WTI CMA	(336,527)	—	—	—
	<b>\$ (913,056)</b>	<b>\$ (366,131)</b>	<b>—</b>	<b>—</b>
<b>Net Fair Value of Derivatives</b>	<b>\$ 511,244</b>	<b>\$ 1,100,255</b>	<b>—</b>	<b>—</b>

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

	Fair Value of Derivative		Fair Value of Derivative	
	Liabilities		Liabilities	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
<b>Current</b>				
Henry Hub Nymex Swap	\$ (80,360)	\$ —	—	—
Tennessee Z4 basis swap	(221,156)	(179,550)	—	—
<b>Long-term</b>				
Henry Hub Nymex Swap	(28,133)	—	—	—

	<u><u>\$ (329,649)</u></u>	<u><u>\$ (179,550)</u></u>
<b>Net Fair Value of Derivatives</b>	<u><u>\$ (84,503)</u></u>	<u><u>\$ 1,222,090</u></u>

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

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
<b>Fair value of asset (liability), beginning of the period</b>	\$ 1,286,070	\$ 940,553	\$ 1,222,090	\$ (239,824)	\$ 1,100,255	\$ 1,222,090
(Losses) gains on derivative contracts included in earnings	(24,303)	(929,637)	1,672,535	(1,124,547)		
Gains on derivative contracts included in earnings					(100,726)	1,068,660
Settlement of commodity derivative contracts	(1,346,270)	21,410	(2,979,128)	1,396,697	(488,285)	(363,300)
<b>Fair value of (liability) asset, end of the period</b>	<u><u>\$ (84,503)</u></u>	<u><u>\$ 32,326</u></u>	<u><u>\$ (84,503)</u></u>	<u><u>\$ 32,326</u></u>		
<b>Fair value of asset, end of the period</b>					<u><u>\$ 511,244</u></u>	<u><u>\$ 1,927,450</u></u>

## 15. Asset Retirement Obligations

Asset retirement obligations are estimated by management based on Epsilon's net ownership interest in all wells and the gathering system, estimated costs to reclaim and abandon such assets and the estimated timing of the costs to be incurred in future periods, and the forecast risk free cost of capital. Epsilon has estimated the value of its total asset retirement obligations to be ~~\$2.8~~ ~~\$3.6~~ million as of ~~September 30, 2023~~ ~~March 31, 2024~~ ~~\$2.8~~ ~~\$3.5~~ million at December 31, 2022 based on a total net future undiscounted liability of approximately ~~\$7.4~~ million (\$7.4 million at December 31, 2022 December 31, 2023). 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.

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

	Three Months Ended		Year ended	
	March 31,		December 31,	
	2024	2023	2024	2023
Balance beginning of period	\$ 3,502,952	\$ 2,780,237		
Liabilities acquired	16,373	12,437		
Liabilities disposed of	—	(46,961)		
Wells plugged and abandoned	(1,654)	(509,802)		
Change in estimates	—	1,178,142		
Accretion	44,815	88,899		
<b>Balance end of period</b>	<u><u>\$ 3,562,486</u></u>	<u><u>\$ 3,502,952</u></u>		

	Nine Months Ended		Year ended	
	September 30,		December 31,	
	2023	2022	2023	2022
Balance beginning of period	\$ 2,780,237	\$ 2,833,656		
Liabilities acquired	4,640	12,053		
Liabilities disposed of	(46,961)	(25,835)		
Wells plugged and abandoned	(3,482)	(118,260)		
Accretion	60,309	78,623		
<b>Balance end of period</b>	<u><u>\$ 2,794,743</u></u>	<u><u>\$ 2,780,237</u></u>		

[Table of Contents](#)**Epsilon Energy Ltd.****Notes to the Unaudited Condensed Consolidated Financial Statements****16. Fair Value Measurements**

The methodologies used to determine the fair value of our financial assets and liabilities at **September 30, 2023** **March 31, 2024** were the same as those used at **December 31, 2022** **December 31, 2023**.

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

The Company has investments in U.S. Treasury Bills, **some all** of which mature over a period **greater than 90 days** 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 **Tennessee Z4** basis swap contracts for natural **gas**, **gas**, and **NYMEX WTI CMA** swap contracts for **crude oil**. The Company's derivative contracts are valued based on a marked to market approach. These assumptions are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace, and are therefore designated as Level 2 within the valuation hierarchy. The Company utilizes its counterparties' valuations to assess the reasonableness of its own valuations.

	September 30, 2023				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
<b>Assets</b>					
Derivative contracts	\$ —	\$ 245,146	\$ —	\$ (245,146)	\$ —
Short term investments	\$ 18,870,468	\$ —	\$ —	\$ —	\$ 18,870,468
<b>Liabilities</b>					
Derivative contracts	\$ —	\$ (329,649)	\$ —	\$ 245,146	\$ (84,503)

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	March 31, 2024				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
<b>Assets</b>					
Derivative contracts	\$ —	\$ 1,347,512	\$ —	\$ —	\$ 1,347,512
Cash equivalents	\$ 452,642	\$ —	\$ —	\$ —	\$ 452,642
Short term investments	\$ 12,238,177	\$ —	\$ —	\$ —	\$ 12,238,177
<b>Liabilities</b>					
Derivative contracts	\$ —	\$ 76,788	\$ —	\$ (913,056)	\$ (836,268)

	December 31, 2022				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value

<b>Assets</b>					
Derivative contracts	\$	—	\$ 1,401,640	\$	— \$ (179,550) \$ 1,222,090
<b>Liabilities</b>					
Derivative contracts	\$	—	\$ (179,550)	\$	— \$ 179,550 \$ —
<b>December 31, 2023</b>					
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
<b>Assets</b>					
Derivative contracts	\$ —	\$ 1,219,025	\$ —	\$ —	\$ 1,219,025
Cash equivalents	\$ 195,669	\$ —	\$ —	\$ —	\$ 195,669
Short term investments	\$ 18,775,106	\$ —	\$ —	\$ —	\$ 18,775,106
<b>Liabilities</b>					
Derivative contracts	\$ —	\$ 247,361	\$ —	\$ (366,131)	\$ (118,770)

## 17. Current Expected Credit Loss

Under ASU 326, Financial Instruments – Credit Losses, estimated losses on financial assets are provided through an allowance for credit losses. The majority of our financial assets are 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 **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, we determined that our allowance for credit loss was nil.

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

*The following discussion is intended to assist in the understanding of trends and significant changes in or results of operations and the financial condition of Epsilon Energy Ltd. and its subsidiaries for the periods presented. The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto presented in this report, including the unaudited condensed consolidated financial statements as of **September 30, 2023** **March 31, 2024** and **2022** **2023** and for the nine months then ended together with accompanying notes, as well as our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs, and expected performance. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors. See "Part II. Item 1A. Risk Factors" and "Forward-Looking Statements."*

### Overview

Epsilon Energy Ltd. (the "Company") is a North American onshore focused independent natural gas and oil company engaged in the acquisition, development, gathering and production of natural gas and oil reserves. Our areas of operations are the Marcellus shale section of

the Appalachian basin in Pennsylvania, the Permian Basin in Texas and New Mexico, and the NW Anadarko basin in Oklahoma, Oklahoma.

At March 31, 2024 we held leasehold rights to 16,442 net acres. We have natural gas production from our non-operated wells in Pennsylvania, and the Permian basin oil, natural gas liquids, and natural gas production from our non-operated wells in Eddy County, Texas, New Mexico, and Ector County, Texas. In Pennsylvania, we hold 5,098 Oklahoma.

At December 31, 2023 our total estimated net acres producing 25 MMcf/d net to our working interest. In Oklahoma, we hold 7,228 net acres producing 2.4 MMcf/d net to our working interest. In Texas, we hold 3,093 net acres. In New Mexico, we hold wellbore interests producing 204 BOE/d net to our working interest. proved reserves were 65,916 MMcf of natural gas, 383,174 Bbls of NGLs, and 341,286 Bbls of oil and condensate, excluding the impact of the February 2024 acquisition in the Permian Basin.

In Pennsylvania, the Company owns a 35% interest in the 52-mile Auburn Gas Gathering System ("Auburn GGS") which is operated by a subsidiary of Williams Partners, LP.

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

#### **Business Strategy**

The Company is focused on high rate of return capital investments in onshore North American natural gas and oil basins. We are committed to disciplined capital allocation which should include shareholder returns in the form of dividends and share buybacks. We expect that our plan to maintain a strong balance sheet and cash flows will 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 in our position in the prolific Marcellus unconventional reservoir in Pennsylvania ("PA"). Our PA assets are supported by our 35% ownership in the Auburn GGS. We GGS and we have a substantial remaining drillable location inventory within our existing leaseholds.

More recently, our investments have been focused in Ector County, Texas in the Permian Basin.

On May 9, 2023, Epsilon acquired a 10% interest in two wellbores located in Eddy County, New Mexico from a private operator. The wells are currently on production. Total capital expenditure (net to Epsilon) was \$2.1 million \$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 participated in the drilling and completion of 2 gross wells, both 10,000' laterals, in the second and third quarter of 2023. The wells are drilled, and the completions are underway with first were put on production from both wells expected early in the fourth quarter of October 2023. Total capital expenditures (net to Epsilon) to date are \$8.5 million \$9.6 million, including leasehold and prepaid drilling and completion costs. leasehold.

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. Initial plans call for 4 wells to be drilled on the position in the first half of 2024 with plans expected to be finalized by the end of 2023. Total capital expenditures (net to Epsilon) to date are \$6.2 million.

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On February 27, 2024, Epsilon acquired a 25% working interest in three producing wells and 3,246 gross undeveloped acres on the Central Basin Platform in Ector County, Texas from a private operator. The assets are immediately offset to the assets acquired in June 2023. The Company is currently participating in the drilling and completion of 1 gross well (a 13,200' lateral) on the position.

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

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### Three and nine months ended **September 30, 2023** **March 31, 2024** Highlights

#### **Operational Highlights**

##### *Marcellus Shale – Pennsylvania*

- During the three months ended **September 30, 2023** **March 31, 2024**, Epsilon's realized natural gas price was **\$1.07** **\$1.77** per Mcf, an **85%** **a 31%** decrease over the three months ended **September 30, 2022**. During the nine months ended **September 30, 2023**, Epsilon's realized natural gas price was **\$1.74** per Mcf, a **72%** decrease from the nine months ended **September 30, 2022** **March 31, 2023**.
- During the three months ended **September 30, 2023** **March 31, 2024**, Epsilon's net revenue interest natural gas production was **1.7** **1.6** Bcf compared to **2.3** **2.5** Bcf during the same period in **2022**, **2023**, a **26%** decrease. During the nine months ended **September 30, 2023**, Epsilon's net revenue interest natural gas production was **6.0** Bcf compared to **6.7** Bcf during the same period in **2022**, a **10%** **32%** decrease.
- Gathered and delivered **16.6** **14.0** Bcf gross **(5.8** **4.9** net to Epsilon's interest) during the three months ended **September 30, 2023** **March 31, 2024**, or **181** **MMcf/d** through the Auburn Gas Gathering System. Gathered and delivered **48.6** Bcf **(17.0** net to Epsilon's interest) during the nine months ended **September 30, 2023**, or **178** **156** **MMcf/d** through the Auburn Gas Gathering System.
- At **September 30, 2023** **March 31, 2024**, the Company had **three** **seven** gross **(.47** **.7** net) wells **being drilled**, **waiting to be turned in line**.

##### *Permian Basin – Texas and New Mexico*

- During the three ended **March 31, 2024**, Epsilon's realized price for all Permian Basin production was **\$53.28** per Boe.
- Total net revenue interest production for the three months ended **March 31, 2024**, which included oil, natural gas liquids, and natural gas, was **52.3** Mboe.

• At **March 31, 2024**, the Company had **1** gross **(.25** net) well drilled awaiting completion in Texas.

##### *Anadarko, NW Stack Trend – Oklahoma*

- During the three months ended **September 30, 2023** **March 31, 2024**, Epsilon's realized price for all Oklahoma production was **\$4.88** **\$4.52** per Mcfe, a **48%** **30%** decline from the three months ended **September 30, 2022**. During the nine months ended **September 30, 2023**, Epsilon's realized price for all Oklahoma production was **\$5.38** per Mcfe, a **39%** decrease from the nine months ended **September 30, 2022** **March 31, 2023**.
- Total net revenue interest production for the three months ended **September 30, 2023** **March 31, 2024** included natural gas, oil and other liquids and was **0.15** **0.11** Bcfe, a **40%** **36%** decrease from the same period in **2022**. Total net revenue interest production for the nine months ended **September 30, 2023** included natural gas, oil and other liquids and was **0.50** Bcfe, a **32%** decrease over the same period in **2022**.

##### *Permian Basin – New Mexico and Texas*

- During the three and nine months ended **September 30, 2023**, Epsilon's realized price for all New Mexico production was **\$46.55** per Boe and **\$47.01** per Boe, respectively.
- Total net revenue interest production for the three and nine months ended **September 30, 2023** included natural gas, oil and other liquids and was **13.9** Mboe and **28.8** Mboe, respectively.

• At **September 30, 2023**, the Company had **2** gross **(.50** net) wells awaiting flowback operations in **Texas**, **2023**.

#### **Non-GAAP Financial Measures-Adjusted EBITDA**

Epsilon defines Adjusted EBITDA as earnings before (1) net interest expense, (2) taxes, (3) depreciation, depletion, amortization and accretion expense, (4) impairments of natural gas and oil properties, (5) non-cash stock compensation expense, (6) gain or loss on sale of assets, (7) gain or loss on derivative contracts net of cash received or paid on settlement, and (8) net other income(expense). Adjusted EBITDA is not a measure of financial performance as determined under U.S. GAAP and should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with U.S. GAAP or as a measure of profitability or liquidity.

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

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Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that Adjusted EBITDA provides useful information regarding its ability to service debt and to fund capital expenditures. It further provides investors a helpful measure for comparing operating performance on a normalized or recurring basis with the

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performance of other companies, without giving effect to certain non-cash expenses and other items. This provides management, investors and analysts with comparative information for evaluating the Company in relation to other natural gas and oil companies providing corresponding non-U.S. GAAP financial measures or that have different financing and capital structures or tax rates. These non-U.S. GAAP financial measures should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with U.S. GAAP.

The table below sets forth a reconciliation of net income to Adjusted EBITDA for the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, which is the most directly comparable measure of financial performance calculated under U.S. GAAP and should be reviewed carefully.

	Three months ended September 30, Nine months ended September 30,				Three months ended March	
	2023	2022	2023	2022	2024	2023
<b>Net income</b>	\$ 388,775	\$ 9,608,453	\$ 4,349,191	\$ 25,997,329	\$ 1,506,896	\$ 3,529,8
Add Back:						
Interest (income) expense, net	(375,972)	(72,137)	(1,237,076)	(93,239)	(257,512)	(462,3
Income tax expense	710,164	3,896,010	2,283,228	10,097,484	54,050	1,326,9
Depreciation, depletion, amortization, and accretion	1,392,032	1,706,030	4,780,766	4,898,988	2,380,426	1,773,0
Stock based compensation expense	439,653	500,597	799,149	836,949	321,569	179,7
<b>Loss (gain) on sale of assets</b>	—	—	1,449,871	(221,642)	—	—
<b>Gain (loss) on sale of assets</b>						—
Loss (gain) on derivative contracts net of cash received or paid on settlement	1,370,573	908,227	1,306,593	(272,151)	589,011	(705,3
Foreign currency translation loss	(98)	907	(1,086)	1,517	570	(9
<b>Adjusted EBITDA</b>	<b>\$ 3,925,127</b>	<b>\$ 16,548,087</b>	<b>\$ 13,730,636</b>	<b>\$ 41,245,235</b>	<b>\$ 4,595,010</b>	<b>\$ 5,640,8</b>

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**Results of Operations**
**Net Operating Revenues**

For the **nine** **three** months ended **September 30, 2023** **March 31, 2024** revenues decreased **\$32.5 million** **\$1.4 million**, or **60%** **15%**, to **\$22.2 million** **\$8.0 million** from **\$54.7 million** **\$9.4 million** during the same period of **2022**. For the **three** months ended **September 30, 2023** revenues decreased **\$14.9 million**, or **70%**, to **\$6.3 million** from **\$21.2 million** during the same period of **2022**. **2023**.

Revenue and volume statistics for the **three** ended **March 31, 2024** and **nine** months ended **September 30, 2023** and **2022** **2023** were as follows:

	Three months ended		Nine months ended		Three months ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
<b>Revenues</b>						
Pennsylvania						
Natural gas revenue	\$ 1,873,658	\$ 16,810,450	\$ 10,482,695	\$ 42,030,790	\$ 2,758,108	\$ 5,852,725
Volume (MMcf)	1,746	2,289	6,035	6,728	1,557	2,286
Avg. Price (\$/Mcf)	\$ 1.07	\$ 7.34	\$ 1.74	\$ 6.25	\$ 1.77	\$ 2.56
Gathering system revenue	\$ 3,068,996	\$ 2,072,806	\$ 7,657,755	\$ 6,180,747		
Gathering system revenue (net of elimination)					\$ 1,935,698	\$ 2,386,695
<b>Total PA Revenues</b>	<b>\$ 4,942,654</b>	<b>\$ 18,883,256</b>	<b>\$ 18,140,450</b>	<b>\$ 48,211,537</b>	<b>\$ 4,693,806</b>	<b>\$ 8,239,420</b>
New Mexico						
Permian Basin						
Natural gas revenue	\$ 23,298	\$ —	\$ 57,742	\$ —	\$ 41,578	\$ —
Volume (MMcf)	15	—	35	—	43	—
Avg. Price (\$/Mcf)	\$ 1.53	\$ —	\$ 1.67	\$ —	\$ 0.96	\$ —
Natural gas liquids revenue	\$ 67,441	\$ —	\$ 136,640	\$ —	\$ 259,914	\$ —
Volume (MBO)	3.2	—	7.1	—		
Volume (MBOE)					11.4	—
Avg. Price (\$/Bbl)	\$ 21.09	\$ —	\$ 19.30	\$ —	\$ 22.71	\$ —
Oil and condensate revenue	\$ 555,335	\$ —	\$ 1,158,750	\$ —	\$ 2,486,513	\$ —
Volume (MBO)	8.1	—	15.9	—		
Volume (MBbl)					33.7	—
Avg. Price (\$/Bbl)	\$ 68.19	\$ —	\$ 72.73	\$ —	\$ 73.87	\$ —
<b>Total NM Revenues</b>	<b>\$ 646,074</b>	<b>\$ —</b>	<b>\$ 1,353,132</b>	<b>\$ —</b>		
<b>Total Permian Basin Revenues</b>					<b>\$ 2,788,005</b>	<b>\$ —</b>
Oklahoma						
Natural gas revenue	\$ 191,789	\$ 1,083,372	\$ 811,181	\$ 2,550,464	\$ 163,293	\$ 403,453
Volume (MMcf)	88	130	278	366	66	96
Avg. Price (\$/Mcf)	\$ 2.19	\$ 8.33	\$ 2.92	\$ 6.98	\$ 2.47	\$ 4.20
Natural gas liquids revenue	\$ 160,571	\$ 497,843	\$ 532,655	\$ 1,500,668	\$ 113,070	\$ 196,295
Volume (MBO)	5.4	12.5	19.0	38.5		
Volume (MBOE)					4.7	6.1

Avg. Price (\$/Bbl)	\$ 29.70	\$ 39.91	\$ 28.08	\$ 38.96	\$ 24.26	\$ 32.29
Oil and condensate revenue	\$ 369,439	\$ 779,456	\$ 1,329,521	\$ 2,484,360	\$ 228,569	\$ 517,108
Volume (MBO)	4.7	7.6	17.5	24.1		
Volume (MBbl)					3.0	6.8
Avg. Price (\$/Bbl)	\$ 79.42	\$ 102.26	\$ 75.77	\$ 103.21	\$ 77.04	\$ 76.15
<b>Total OK Revenues</b>	<b>\$ 721,799</b>	<b>\$ 2,360,671</b>	<b>\$ 2,673,357</b>	<b>\$ 6,535,492</b>	<b>\$ 504,932</b>	<b>\$ 1,116,856</b>
<b>Total Revenues</b>	<b>\$ 6,310,527</b>	<b>\$ 21,243,927</b>	<b>\$ 22,166,939</b>	<b>\$ 54,747,029</b>	<b>\$ 7,986,743</b>	<b>\$ 9,356,276</b>

Upstream natural gas revenue for the nine months ended **September 30, 2023** **March 31, 2024** decreased by **\$33.2 million** **\$3.3 million**, or **75% 53%**, over the same period in **2022, 2023**. A decrease of **\$28.5 million** **\$1.4 million** was due to lower natural gas prices and a decrease of **\$4.7 million** **\$1.9 million** was due to lower sales volumes as a result of natural decline in the wells and temporary down-time associated with workover operations. Upstream operator elected well shut-ins due to poor natural gas revenue for the three months ended **September 30, 2023** decreased by **\$15.8 million**, or **88%**, over the same period pricing in **2022**. A decrease of **\$11.6 million** was due to lower natural gas prices and a decrease of **\$4.2 million** due to lower sales volumes as a result of natural decline in the wells and temporary down-time associated with workover operations. **Pennsylvania**.

Upstream natural gas liquids revenue for the nine months ended **September 30, 2023** decreased by **\$0.8 million**, or **55%** over the same period in **2022**. A decrease of **\$0.3 million** was due to lower prices and a decrease of **\$0.5 million** was due to lower sales volumes. Upstream natural gas liquids revenue for the three months ended **September 30, 2023** decreased **March 31, 2024** increased by **\$0.3 million** **\$0.2 million**, or **54% 90%** over the same period in **2022, 2023**. An increase of **\$0.3 million** was due to additional sales volumes from the Permian Basin and a decrease of **\$0.1 million** was due to lower prices sales volumes.

Upstream oil and condensate revenue for the three months ended **March 31, 2024** increased by **\$2.2 million**, or **425%** over the same period in **2023**. An increase of **\$2.3 million** was due to additional sales volumes from the Permian Basin offset by a decrease of **\$0.2 million** was **\$0.1 million** due to lower sales volumes. prices.

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Upstream oil and condensate revenue for the nine months ended **September 30, 2023** was stable over the same period in **2022**. Upstream oil and condensate revenue for the three months ended **September 30, 2023** increased by **\$0.1 million**, or **19%** over the same period in **2022**. An increase of **\$0.5 million** was due to higher volumes because of the New Mexico acquisition offset by a decrease of **\$0.4 million** due to lower prices.

Gathering system revenue increased **\$1.5 million** decreased **\$0.5 million**, or **24%**, nine months ended **September 30, 2023** over the same period in **2022**. This was the result of 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. Gathering system revenue increased by **\$1.0 million**, or **48% 19%**, for the three months ended **September 30, 2023** **March 31, 2024** over the same period in **2022, 2023**. This was primarily the result of lower anchor shipper volumes due to well decline and operator elected well shut-ins offset partially by a one-time compressor fee adjustment as a result of 17% increase in the operator's internal audit of the Auburn gathering system rate. Revenues derived from transporting and compressing our production, which have been eliminated from gathering system revenues amounted to **\$0.3 million** and **\$1.0 \$0.4 million**, respectively, for the three and nine months ended **September 30, 2023** **March 31, 2024** and **\$0.4 million** and **\$1.1** for the three and nine months ended **September 30, 2022, 2023**.

#### **Operating Costs**

The following table presents total cost and cost per unit of production (Mcfe), including ad valorem, severance, and production taxes for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**:

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023		2022		2024	
	\$ 1,559,957	\$ 2,024,229	\$ 4,404,757	\$ 5,681,736	\$ 1,768,462	\$ 1,404,279
Lease operating costs						
Lease operating costs (net of elimination)	631,725	600,672	1,854,000	1,666,275	552,570	651,341
Gathering system operating costs	<u>\$ 2,191,682</u>	<u>\$ 2,624,901</u>	<u>\$ 6,258,757</u>	<u>\$ 7,348,011</u>	<u>\$ 2,321,032</u>	<u>\$ 2,055,620</u>
Upstream operating costs—Total \$/Mcfe	0.79	0.79	0.66	0.76	0.89	0.57
Gathering system operating costs \$/Mcf	0.15	0.17	0.16	0.14	0.16	0.18

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

Upstream operating costs consist of lease operating expenses necessary to extract natural gas and oil, including gathering and treating the natural gas and oil to ready it for sale. For the ~~nine~~ three months ended ~~September 30, 2023~~ ~~March 31, 2024~~ these costs ~~decreased~~ increased by ~~\$1.3 million~~ ~~\$0.4 million~~, or ~~23%~~ 26%, over the same period in 2022. For the three months ended ~~September 30, 2023~~ these costs decreased by ~~\$0.5 million~~, or 23%, over the same period in 2022. Operating costs in 2022 were higher ~~2023~~. The increase is primarily due to higher produced volumes and extraordinary plugging and abandonment costs related to atypical wellbore conditions in two older vintage ~~the additional wells in Pennsylvania, which is not representative of the other wells in~~ Permian Basin.

Gathering system operating costs consist primarily of rental payments for the natural gas fueled compression units and overhead fees due to the system's operator. For the ~~nine~~ three months ended ~~September 30, 2023~~ ~~March 31, 2024~~, gathering system operating costs ~~increased~~ decreased by ~~\$0.2 million~~ ~~\$0.1 million~~, or ~~11%~~ 15% from the same period in 2022. For the three months ended ~~September 30, 2023~~, gathering system operating costs increased by ~~\$0.03 million~~, or 5% from the same period in 2022, ~~2023~~. This increase ~~decrease~~ is primarily due to a CPI-U adjusted increase to lower anchor shipper volumes gathered through the G&A fee on these volumes and compressor rentals ~~system~~.

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

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023		2022		2024	
	\$ 1,392,032	\$ 1,706,030	\$ 4,780,766	\$ 4,898,988	\$ 2,380,426	\$ 1,773,006
Depletion, depreciation, amortization and accretion						

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

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

Accretion expense is related to the asset retirement costs.

DD&A expense for the nine three months ended September 30, 2023 decreased March 31, 2024 increased by \$0.1 million \$0.6 million, or 2% 34% from the same period in 2022. DD&A expense for the three months ended September 30, 2023 decreased by \$0.3 million, or 18% from the same period in 2022 2023 as a result of two asset sales in 2023 with a large net book value.

#### **Loss (gain) on sale of assets**

Loss (gain) on sale of assets	Three months ended		Nine months ended September 30,	
	September 30,		2023	2022
	\$	—	\$	—
Loss (gain) on sale of assets			\$ 1,449,871	\$ (221,642)

Loss on sale of assets increased by \$1.7 million during the nine months ended September 30, 2023 from 2022 due to the assets sold in 2023 having a larger net book value than the asset sold in 2022. Epsilon sold two Oklahoma assets in April 2023 and one Oklahoma asset in April 2022. There were no asset sales additional producing wells in the three months ended September 30, 2023 and 2022. Permian Basin.

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#### **General and Administrative ("G&A")**

General and administrative	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
General and administrative	\$ 1,980,011	\$ 2,515,869	\$ 5,959,906	\$ 5,488,496	\$ 1,880,592	\$ 2,203,521

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

G&A expenses increased by \$0.5 million, or 9%, during the nine months ended September 30, 2023 from 2022. This was primarily due to an increase of \$0.4 million in compensation (\$0.2 million from the 2022 management transition and \$0.2 million from an increase in Director fees) and an increase of \$0.1 million in other service fees. G&A expenses decreased by \$0.5 million \$0.3 million, or 21% 15%, during the three months ended September 30, 2023 March 31, 2024 from 2022 2023. This was primarily due to a \$0.3 million \$0.05 million decrease in compensation (\$0.4 million decrease from the 2022 after management transition offset by expenses in 2023, a decrease of \$0.1 million increase in Director fees) legal fees, a decrease of \$0.1 million decrease in accounting, tax, and other consulting fees, and a decrease of \$0.2 million \$0.05 million in legal fees, office expenses.

#### **Interest Income**

Interest income	Three months ended March 31,	
	2024	2023
Interest income	\$ 266,272	\$ 490,762

Interest income for the three months ended March 31, 2024 and 2023 decreased by \$0.2 million, or 46%, from the same period in 2023. This is primarily due to a reduction in the amount of outstanding financial instruments in short term investments.

#### **Interest Expense**

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023

Interest expense	\$ 8,760	\$ 17,501	\$ 71,619	\$ 33,565	\$ 8,760	\$ 28,437
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Interest expense relates to the fees paid on the revolving credit facility.

Interest expense for the nine months ended September 30, 2023 and 2022 increased due to an increase in the borrowing base in the Company's previous credit facility in the first quarter of 2023. Interest expense for the three months ended September 30, 2023 March 31, 2024 and 2022 decreased by \$0.02 million, or 69%, as a result of a change in the fee structure under the new credit facility.

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**(Loss) Gain on Derivative Contracts**

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
(Loss) gain on derivative contracts	\$ (24,303)	\$ (929,637)	\$ 1,672,535	\$ (1,124,547)	\$ (100,726)	\$ 1,068,660

For the three and nine months ended September 30, 2023 March 31, 2024, Epsilon had NYMEX HH Natural Gas futures swaps, Tennessee Gas Pipeline Zone 4 basis swaps, and crude oil NYMEX WTI CMA swaps derivative contracts for the purpose of hedging a portion of its physical natural gas and oil sales revenue. For the three ended March 31, 2023, Epsilon had NYMEX HH Natural Gas Futures swaps and Tennessee Gas Pipeline Zone 4 basis swap derivative contracts for the purpose of hedging a portion of its physical natural gas sales revenue. For the three and nine months ended September 30, 2022, Epsilon had NYMEX HH two-way collars and Tennessee Gas Pipeline Zone 4 basis swap derivative contracts for the same hedging purpose.

During the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we received cash settlements of \$1,346,270 and \$2,979,128, respectively. During the three and nine months ended June 30, 2022, we paid net cash settlements of \$21,410 \$488,285 and \$1,375,287, \$363,300, respectively.

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For the three and nine months ended September 30, 2023 March 31, 2024, realized gains losses on derivative contracts increased by \$4.4 million and \$1.4 million, respectively, \$1.2 million. This was primarily due to NYMEX WTI CMA future prices rising during the decrease in NYMEX HH Natural Gas Futures prices quarter resulting in an increase a decrease in value of the NYMEX HH crude oil swaps. On September 29, 2023, the Company entered into new NYMEX HH Natural Gas Futures swaps and Tennessee Gas Pipeline Zone 4 basis swaps covering November 2023 through March 2024 (1.45 Bcf) and April 2024 through October 2024 (1.45 Bcf).

**Capital Resources and Liquidity**

**Cash Flow**

The primary source of cash for Epsilon during the **nine three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** was funds generated from operations. The primary uses of cash for the **nine three** months ended **September 30, 2023** **March 31, 2024** and **2023** were the development of upstream properties, investment in U.S. Treasury Bills, the repurchase of shares of common stock, and the distribution of dividends. The primary uses of cash for the **nine months** ended **September 30, 2022** were the development of upstream properties, the repurchase of shares of common stock, and the distribution of dividends.

At **September 30, 2023** **March 31, 2024**, we had a working capital surplus of **\$32.5 million** **\$12.9 million**, a decrease of **\$16.7 million** **\$20.3 million** from the **\$49.2 million** **\$33.2 million** surplus at **December 31, 2022** **December 31, 2023**. The Company anticipates its current cash balance, short term investments, available borrowings, and cash flows from operations to be sufficient to meet its cash requirements for at least the next twelve months.

**Nine Three** months ended **September 30, 2023** **March 31, 2024** compared to **2022** **2023**

During the **nine three** months ended **September 30, 2023** **March 31, 2024**, **\$14.4 million** **\$3.7 million** was provided by the Company's operating activities, compared to **\$29.4 million** **\$7.6 million** during the same period in **2022**, **2023**, representing a 51% decrease.

The Company used **\$37.1 million** **\$11.8 million** and **\$30.9 million** of cash for investing activities during the **nine three** months ended **September 30, 2023**. The **March 31, 2024** and **2023**, respectively. During the **three months** ended **March 31, 2024**, the Company had a **\$18.3 million** net investment in U.S. Treasury Bills and **\$18.8 million** investments of **\$18.5 million** on leasehold and well costs in Pennsylvania and Texas and Oklahoma. The Company used **\$5.7 million** offset by net proceeds of **cash for investing activities during** **\$6.7 million** in U.S. Treasury Bills. During the **nine three** months ended **September 30, 2022**, **March 31, 2023**, the Company has investments of **\$30.1 million** in U.S. Treasury Bills and **\$0.8 million** in leasehold and well costs. This was spent primarily on leasehold and well costs in Pennsylvania, Texas, and Oklahoma, Pennsylvania.

The Company used **\$10.1 million** **\$2.6 million** and **\$2.8 million** of cash for financing activities during the **nine three** months ended **September 30, 2023** compared to **\$9.9 million** during the same period in **2022**, **March 31, 2024** and **2023**, respectively. This was spent primarily on dividend payments and the repurchase of shares of common stock.

#### **Credit Agreement**

The Company closed a senior secured reserve based revolving credit facility on June 28, 2023 with Frost Bank as issuing bank and sole lender. The **new facility replaced the Company's previous facility**. The **initial current** commitment and

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borrowing base is \$35 million, supported by the Company's upstream assets in Pennsylvania and subject to semi-annual redeterminations with a maturity date of the earlier of June 28, 2027 or the date that the commitments are terminated. Interest will be charged at the Daily Simple SOFR rate plus a margin of 3.25%. The facility is secured by the assets of the Company's Epsilon Energy USA subsidiary (Borrower) and guaranteed by the Company and the other wholly owned subsidiaries. There are currently no borrowings under the facility.

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

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

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

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### Repurchase Transactions

On **March 9, 2023** **March 20, 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 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 commenced on **March 27, 2023** **March 27, 2024** and will 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.

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, no shares have been repurchased under the new program.

The previous share repurchase program commenced on **March 27, 2023** and ended on **March 26, 2024**. During the year ended **December 31, 2023**, we repurchased **897,275** **968,149** common shares at an average price of \$5.08 per share (excluding commissions) under the **new** **previous** plan.

The previous share repurchase program commenced on **March 8, 2022**. During the **year** **three months** ended **December 31, 2022** **March 31, 2024**, we repurchased **982,500** common **248,700** 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 at a 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 at an average price of **\$5.82** per share (excluding commissions) before the plan terminated on March 7, 2023.

During the nine months ended September 30, 2023, the Company repurchased 1,087,975 shares at an average price of \$5.21 **\$4.82** per share (excluding commissions) under the **two consecutive** repurchase programs **previous** plan.

### Derivative Transactions

The Company has entered into hedging arrangements to reduce the impact of **natural gas** **commodity** price volatility on operations. By reducing the price volatility from a portion of natural gas **and crude oil** production, the potential effects of changing prices on operating cash flows have been partially mitigated, but not eliminated. While mitigating the negative effects of

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falling commodity prices, these derivative contracts also limit the benefits we might otherwise receive from increases in commodity prices.

At **September 30, 2023** **March 31, 2024**, Epsilon's outstanding natural gas **and crude oil** commodity contracts consisted of the following:

Derivative Type	Weighted Average			Weighted Average		
	Volume (MMbtu)	Price (\$/MMbtu)	Fair Value of Asset	Volume (MMbtu)	Price (\$/MMbtu)	Fair Value of Asset
		Swaps	September 30, 2023		Swaps	March 31, 2024
2023						
NYMEX Henry Hub Swap	152,500	\$ 3.32	\$ 29,183			
Tennessee Z4 Basis swap	152,500	\$ (0.73)	\$ 29,106			
2024						

NYMEX Henry Hub swap	1,297,500	\$ 3.22	\$ (35,648)	1,837,500	\$ 3.23	\$ 1,369,078
Tennessee Z4 basis swap	1,297,500	\$ (1.07)	\$ (107,144)	1,685,000	\$ (1.14)	\$ (521,306)
	<u>2,900,000</u>		<u>\$ (84,503)</u>	<u>3,522,500</u>		<u>\$ 847,772</u>

Derivative Type	Volume (Bbl)	Weighted Average Price (\$/Bbl)	Fair Value	
			March 31, 2024	2024
2024				
Crude Oil NYMEX WTI CMA	51,771	\$ 74.34	\$ (316,219)	
2025				
Crude Oil NYMEX WTI CMA	13,162	\$ 74.34	\$ (20,308)	
	<u>64,933</u>		<u>\$ (336,527)</u>	

#### ***Contractual Obligations***

The Company enters into commitments for capital expenditures in advance of the expenditures being made. As of **September 30, 2023** **March 31, 2024**, the Company has **no** **\$3.6 million** in outstanding short term commitments for capital expenditures and has long term commitments of **\$7.4 million** **\$14.8 million** for asset retirement obligations.

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#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

##### ***Gathering System Revenue Risk***

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

##### ***Interest Rate Risk***

Market risk is estimated as the change in fair value resulting from a hypothetical 100 basis point change in the interest rate on the outstanding balance under our credit agreement. The credit agreement allows us to fix the interest rate 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 **September 30, 2023** **March 31, 2024** and **2022, 2023**, the outstanding principal balance under the credit agreement was nil.

##### ***Derivative Contracts***

The Company's financial results and condition depend on the prices received for natural gas production. Natural gas, natural gas liquids, and crude oil prices have fluctuated widely and are determined by economic and political factors. Supply and demand factors, including weather, general economic conditions, the ability to transport the gas to other regions, as well as conditions in

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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 Epsilon to losses or gains, entering into these contracts helps to stabilize cash flows and support the Company's capital spending program.

**ITEM 4. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal chief executive officer and our principal chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal chief executive officer and principal chief financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Our principal chief executive officer and principal chief financial officer have concluded that our current disclosure controls and procedures were effective as of **September 30, 2023** **March 31, 2024** at the reasonable assurance level.

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***Changes in Internal Control over Financial Reporting***

No changes in our internal control over financial reporting occurred during the quarter ended **September 30, 2023** **March 31, 2024** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

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

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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 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.

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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 the District Court's rulings in the case. Following the Third Circuit's ruling to remand the case back to District court, Epsilon has sought and was granted a dismissal of the case without prejudice in September 2023. **None.**

### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

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

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

The following table contains information about our acquisition of equity securities during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

	Maximum number of shares		
	Total number of shares	Average price paid per share	remaining to be purchased under the program
<b>Beginning of normal-course issuer bid, March 8, 2022<sup>(1)</sup></b>			1,183,410
January 2023	125,200	\$ 5.96	
February 2023	65,500	\$ 5.63	
<b>Total as of March 7, 2023</b>	<b>190,700</b>	<b>\$ 5.82</b>	<b>10,210</b>
<b>Beginning of normal-course issuer bid, March 27, 2023<sup>(2)</sup></b>			2,292,644
March 2023	47,220	\$ 5.32	
April 2023	70,406	\$ 5.35	

May 2023	83,097	\$ 5.11	
June 2023	171,552	\$ 5.13	
July 2023	525,000	\$ 5.00	
<b>Total as of September 30, 2023</b>	<b>897,275</b>	<b>\$ 5.08</b>	<b>1,395,369</b>

	Maximum number of shares		
	Total number of shares purchased	Average price paid per share	remaining to be purchased under the program
<b>Beginning of normal-course issuer bid, March 27, 2023<sup>(1)</sup></b>			1,324,495
January 2024	248,700	\$ 4.82	
<b>Total as of March 31, 2024</b>	<b>248,700</b>	<b>\$ 4.82</b>	<b>1,075,795</b>

(1) Epsilon repurchased these shares under its 2022-2023 share repurchase program that commenced on March 8, 2022 and terminated on March 7, 2023.

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

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

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### ITEM 5. OTHER INFORMATION

Not applicable.

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## ITEM 6. —EXHIBITS

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

## SIGNATURES

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

Epsilon Energy Ltd.  
(Registrant)

Date: **November 9, 2023** **May 8, 2024**

By: */s/ J. Andrew Williamson*

J. Andrew Williamson

Chief Financial Officer (Principal Financial Officer and  
Authorized Officer)

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

I, Jason Stabell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Epsilon Energy Ltd. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 9, 2023 May 8, 2024

/s/ Jason Stabell  
 Jason Stabell  
 Chief Executive Officer

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

I, J. Andrew Williamson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Epsilon Energy Ltd. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: **November 9, 2023** May 8, 2024

/s/ J. Andrew Williamson  
\_\_\_\_\_  
J. Andrew Williamson  
Chief Financial Officer

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**Exhibit 32.1**

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

In connection with the Quarterly Report of Epsilon Energy Ltd. (the "Corporation") on Form 10-Q for the period ending **September 30, 2023** **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Corporation.

Date: **November 9, 2023** May 8, 2024

*/s/ Jason Stabell*

Jason Stabell  
Chief Executive Officer

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**Exhibit 32.2**

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

In connection with the Quarterly Report of Epsilon Energy Ltd. (the "Corporation") on Form 10-Q for the period ending **September 30, 2023** **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: **November 9, 2023** May 8, 2024

*/s/ J. Andrew Williamson*

J. Andrew Williamson  
Chief Financial Officer

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#### DISCLAIMER

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