

Epsilon Energy Ltd. Announces Full Year 2022 Results and Approval of New Share Repurchase Program

HOUSTON, March 23, 2023 (GLOBE NEWSWIRE) -- Epsilon Energy Ltd. ("**Epsilon**" or the "**Company**") (NASDAQ: EPSN) today reported its financial results for the fourth quarter and full-year ended December 31, 2022.

Epsilon's highlights for full-year 2022 include:

- Reported net revenue interest (NRI) production of 10.0 Bcfe (27.3 MMcfe per day) for the year ended December 31, 2022
- Realized average price of \$6.09 per Mcfe including hedges (\$6.21 per Mcfe excluding hedges) for the year ended December 31, 2022
- Delivered total revenues of \$70.0 million for the year ended December 31, 2022, an increase of 64% compared to 2021.
 - \$61.9 million from natural gas, oil, and NGL sales;
 - \$8.1 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$1.5 million);
- Increased Adjusted EBITDA by 120% to \$53.1 million for the year ended December 31, 2022, compared to 2021.
- Grew free cash flow (FCF) before changes in working capital by 139% year over year to \$35.0 million for the year ended December 31, 2022.
- Cash and cash equivalents (including restricted cash) was \$45.8 million at December 31, 2022, an increase of 69% compared to December 31, 2021.
- Returned \$12.1 million to shareholders during the year ended December 31, 2022
 - \$6.2 million through the repurchase of 982,500 shares, representing a 4% reduction of shares outstanding
 - \$5.9 million through the quarterly dividends
 - \$12.1 million total is approximately 10% of current market capitalization
- Placed Henry Hub (HH) and TGP Z4 basis swaps totaling 1.07 Bcf (each) for a net realized price of \$3.96 per MMBtu to hedge a portion of expected volumes for the period of April 2023 to October 2023 (approx. 5.0 MMBtu per day). The current unrealized gain is over \$2.2 million.

Jason Stabell, Epsilon's Chief Executive Officer, commented, "We had an exceptional 2022. With the support of our Board and team, Andrew and I have transitioned smoothly. A strong market for natural gas and stable production resulted in an increase in annual revenues of 64%. Our cash balance grew by more than \$18 million this year, to over \$45 million.

Record revenues, EBITDA and free cash flow have allowed us to simultaneously build liquidity and return capital to our shareholders.

In 2022, we returned \$12.1 million to our shareholders (\$5.9 million in dividends and \$6.2 million in buybacks). Since year-end we have purchased an additional 190,700 shares at an average price of \$5.82 per share. Under our 2022 NCIB program we have purchased a total of 1,173,200 shares at an average price of \$6.24, representing approximately

5% of shares outstanding. Today we are pleased to announce Board authorization for our largest ever NCIB of 2,292,644 shares and \$15 million.

As we look to 2023 and beyond, our focus is on identifying attractive investments in existing assets and new projects, while maintaining our strong financial position, and delivering total shareholder returns underpinned by a stable dividend and opportunistic purchases of our stock. Epsilon is well positioned for continued success in a variety of commodity price environments and we are excited about the future, remaining focused on creating value for our shareholders."

One-Year Share Repurchase Authorization

The Board of Directors has authorized the repurchase of up to 2,292,644 common shares, representing 10% of the outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$15.0 million, pursuant to a normal course issuer bid. The one-year period will commence on March 27, 2023. The program will end on March 26, 2024 unless the maximum amount of common shares is purchased before then or Epsilon provides earlier notice of termination.

The Company believes that the market price of its common shares may not reflect their underlying value and the Board of Directors has authorized this initiative because, in the Board's opinion, the proposed repurchase of common shares constitutes an appropriate use of Epsilon's funds, and the repurchase of its common shares is one way of creating shareholder value.

Repurchases will be made from time to time through the facilities of the NASDAQ Global Market. The price paid for the common shares will be, subject to applicable securities laws, the prevailing market price of such common shares on the NASDAQ Global Market at the time of such purchase. The Company intends to fund the purchase out of available cash and does not expect to incur debt to fund the share repurchase program

2022 Operating Results

Epsilon's capital expenditures were \$7.0 million for the year ended December 31, 2022. This capital was primarily related to the drilling of five gross (0.5 net) and completion of four gross (0.21 net) Marcellus wells and the drilling of two gross (0.26 net) and completion of three gross (0.7 net) wells in Oklahoma.

At December 31, 2022, the Company has two gross (0.02 net) Marcellus wells and one gross (0.11 net) Oklahoma well waiting on completion.

The Auburn Gas Gathering System (Epsilon is a 35% owner) gathered and delivered 66.3 Bcf gross of natural gas (23.2 Bcf net to Epsilon's interest) during the year, or 182 MMcf/d.

Fourth Quarter Results

The Company's net revenue interest production was 2.49 Bcfe (27.1 MMcfe/d) for the quarter ended December 31, 2022, compared to 2.58 Bcfe (28.0 MMcfe/d) in the same period last year.

Average realized price of \$5.41 per Mcfe including hedges (\$5.34 per Mcfe excluding hedges) for the quarter ended December 31, 2022, compared to \$3.90 per Mcfe including hedges (\$4.58 per Mcfe excluding hedges) in the same period last year.

Epsilon generated revenues of \$15.2 million for the quarter ended December 31, 2022, compared to \$13.8 million in the same period last year.

- \$13.3 million from natural gas, oil, and NGL sales;
- \$1.9 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$0.4 million);

Adjusted EBITDA of \$11.6 million for the quarter ended December 31, 2022, compared to \$9.0 million in the same period last year.

Free cash flow (FCF) before changes in working capital of \$8.9 million for the quarter ended December 31, 2022, compared to \$5.6 million in the same period last year.

Reserves

The Company has received the final year-end 2022 third party reserves report completed by the consulting firm DeGolyer & MacNaughton. The table below summarizes the findings.

Epsilon Net Year End Reserves (Bcfe)				
	12/31/2021	12/31/2022	Change	%
Proved Developed	73,562	80,795	7,233	10%
Proved Undeveloped	44,156	13,459	(30,696)	-70%
Total Proved	117,718	94,254	(23,463)	-20%
Probable Developed	24,370	24,943	573	2%
Probable Undeveloped	216,469	264,011	47,542	22%
Total Probable	240,839	288,954	48,115	20%
Total Proved + Probable	358,557	383,208	24,652	7%

As shown in the table above, Company Proved Developed reserves increased 10% with the increase mainly attributable to revisions to previous estimates and conversions from Proved Undeveloped. As the Company does not operate its assets in Pennsylvania, it can have limited visibility on future development plans and timing. Based upon discussions with the operator, the Company has reduced the expected pace of drilling and completions. This change to the previously adopted development plan resulted in a significant amount of the undeveloped inventory being developed outside of the 5-year SEC requirement for Proved reserves. Accordingly, these Proved Undeveloped reserves were reclassified as Probable reserves, resulting in a 20% downward revision to total Proved reserves. We anticipate reclassifying them back to Proved reserves once we have line of sight on capital programs.

Earning's Call

The Company will host a conference call to discuss its financial and operational results on Friday, March 24, 2023 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time).

Interested parties in the United States and Canada may participate toll-free by dialing (833) 816-1385. International parties may participate by dialing (412) 317-0478. Participants should ask to be joined to the "Epsilon Energy Year End 2022 Earnings Conference Call"

A webcast can be viewed at:

<https://event.choruscall.com/mediaframe/webcast.html?webcastid=oXVnHGHH>. A webcast replay will be available on the Company's website (www.epsilonenergy.com) following the call.

About Epsilon

Epsilon Energy Ltd. is a North American on-shore focused independent exploration and production company engaged in the acquisition, development, gathering and production of oil and gas reserves. Our primary area of operation is the Marcellus basin in Northeast Pennsylvania. For more information, please visit www.epsilonenergy.com, where we routinely post announcements, updates, events, investor information, presentations and recent news releases.

Forward-Looking Statements

Certain statements contained in this news release constitute forward looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and

other factors that may cause actual results or events to differ materially from those anticipated. Forward-looking statements are based on reasonable assumptions, but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this news release should not be unduly relied upon.

The reserves and associated future net revenue information set forth in this news release are estimates only. In general, estimates of oil and natural gas reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as production rates, ultimate reserves recovery, timing and amount of capital expenditures, ability to transport production, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the oil and natural gas reserves attributable to any particular group of properties, as well as the classification of such reserves and estimates of future net revenues associated with such reserves prepared by different engineers (or by the same engineers at different times) may vary. The actual reserves of the Company may be greater or less than those calculated. In addition, the Company's actual production, revenues, development and operating expenditures will vary from estimates thereof and such variations could be material.

Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. There is no assurance that forecast price and cost assumptions will be attained and variances could be material.

Proved reserves are those reserves which are most certain to be recovered. Probable reserves are those additional reserves that are less certain to be recovered than Proved reserves but which, together with Proved reserves, are as likely as not to be recovered. Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (Proved, Probable) to which they are assigned.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation. The estimated future net revenues contained in this news release do not necessarily represent the fair market value of the Company's reserves.

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EPSILON ENERGY LTD.**Audited Consolidated Statements of Operations***(All amounts stated in US\$)*

	Year ended December 31,	
	2022	2021
Revenues from contracts with customers:		
Gas, oil, NGL, and condensate revenue	\$ 61,877,197	\$ 34,538,167
Gas gathering and compression revenue	8,085,512	7,865,825
Total revenue	69,962,709	42,403,992
Operating costs and expenses:		
Lease operating expenses	7,128,631	6,303,055
Gathering system operating expenses	2,287,763	2,321,329
Development geological and geophysical expenses	9,545	40,299
Depletion, depreciation, amortization, and accretion	6,438,511	6,627,016
Impairment expense		153,058
Gain on sale of oil and gas properties	(221,642)	(484,902)
General and administrative expenses:		
Stock based compensation expense	1,021,026	956,084
Other general and administrative expenses	6,325,412	5,875,732
Total operating costs and expenses	22,989,246	21,791,671
Operating income	46,973,463	20,612,321
Other income (expense):		
Interest income	452,877	38,865
Interest expense	(50,782)	(101,382)
Gain (loss) on derivative contracts	236,077	(4,482,909)
Other income (expense)	(99,469)	1,130
Other income (expense), net	538,703	(4,544,296)
Net income before income tax expense	47,512,166	16,068,025
Income tax expense	12,157,487	4,440,508
NET INCOME	\$ 35,354,679	\$ 11,627,517
Currency translation adjustments	(44,054)	(2,042)
NET COMPREHENSIVE INCOME	\$ 35,310,625	\$ 11,625,475
Net income per share, basic	\$ 1.52	\$ 0.49
Net income per share, diluted	\$ 1.51	\$ 0.49
Weighted average number of shares outstanding, basic	23,319,633	23,705,193
Weighted average number of shares outstanding, diluted	23,406,189	23,857,102

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

	December 31,	December 31,
	2022	2021
ASSETS		

Current assets

Cash and cash equivalents	\$45,236,584	\$26,497,305
Accounts receivable	7,201,386	4,596,931
Fair value of derivatives	1,222,090	-
Prepaid income taxes	1,140,094	-
Other current assets	632,154	569,870
Operating lease right-of-use assets	31,383	-
Total current assets	55,463,691	31,664,106

*Non-current assets***Property and equipment:**

Oil and gas properties, successful efforts method		
Proved properties	148,326,265	138,032,413
Unproved properties	18,169,157	21,700,926
Accumulated depletion, depreciation, amortization and impairment	(107,729,293)	(102,480,972)
Total oil and gas properties, net	58,766,129	57,252,367
Gathering system	42,639,001	42,475,086
Accumulated depletion, depreciation, amortization and impairment	(34,500,740)	57,252,367
Total gathering system, net	8,138,261	99,727,453
Land	637,764	637,764
Buildings and other property and equipment, net	286,035	309,102
Total property and equipment, net	67,828,189	157,926,686

Other assets:

Restricted cash	570,363	568,118
Total non-current assets	68,398,552	158,494,804

Total assets

\$123,862,243	\$190,158,910
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LIABILITIES AND SHAREHOLDERS' EQUITY*Current liabilities*

Accounts payable trade	\$1,695,353	\$1,189,905
Gathering fees payable	935,012	963,546
Royalties payable	2,223,043	1,853,508
Income taxes payable	-	1,098,425
Accrued capital expenditures	41,694	1,016,830
Accrued compensation	598,351	343,348
Other accrued liabilities	690,655	754,779
Fair value of derivatives	-	239,824
Asset retirement obligations	-	85,207
Operating lease liabilities	35,299	-
Total current liabilities	6,219,407	7,545,372

Non-current liabilities

Asset retirement obligations	2,780,237	7,545,372
Deferred income taxes	10,617,394	9,905,440
Operating lease liability, LT	-	-
Total non-current liabilities	13,397,631	17,450,812
Total liabilities	19,617,038	24,996,184

Commitments and contingencies (Note 10)*Shareholders' equity*

Preferred shares, no par value, unlimited shares authorized, none issued or outstanding	-	-
Common shares, no par value, unlimited shares authorized and 23,117,144 issued and outstanding at December 31, 2022 and 24,202,218 issued and 23,668,203 shares outstanding at December 31, 2021	123,904,965	131,815,739
Treasury shares, at cost, 0 at December 31, 2022 and 534,015 at December 31, 2021	-	(2,423,007)
Additional paid-in capital	9,856,229	8,835,203
Accumulated deficit	(39,290,540)	(68,783,207)
Accumulated other comprehensive income	9,774,551	9,818,605
Total shareholders' equity	104,245,205	79,263,333
Total liabilities and shareholders' equity	\$ 123,862,243	\$ 104,259,517

EPSILON ENERGY LTD.

Audited Consolidated Statements of Cash Flows

(All amounts stated in US\$)

	Year ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 35,354,679	\$ 11,627,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	6,438,511	6,627,016
Impairment expense	-	153,058
Loss (gain) on derivative contracts	(236,077)	4,482,909
Gain on sale of oil and gas properties	(221,642)	(484,902)
Settlement (paid) received on derivative contracts	(1,225,837)	(4,243,085)
Settlement of asset retirement obligation	(118,260)	-
Stock-based compensation expense	1,021,026	956,084
Deferred income tax expense (benefit)	711,954	(197,412)
Changes in assets and liabilities:		
Accounts receivable	(2,604,455)	(679,643)
Other current assets	(58,368)	20,000
Accounts payable, royalties payable and other accrued liabilities	1,182,348	646,410
Income taxes payable	(2,238,519)	1,098,425
Net cash provided by operating activities	38,005,360	20,006,377
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(310,211)	(148,862)
Additions to proved oil and gas properties	(7,562,502)	(4,435,945)
Additions to gathering system properties	(184,032)	(297,841)
Additions to land, buildings and property and equipment	(13,258)	(5,745)
Proceeds from sale of oil and gas properties	200,000	450,000
Prepaid drilling costs	-	379

Net cash used in investing activities	(7,870,003)	(4,438,014)
Cash flows from financing activities:		
Buyback of common shares	(6,234,879)	(2,423,007)
Exercise of stock options	747,112	85,338
Dividends	(5,862,012)	-
Net cash used in financing activities	(11,349,779)	(2,337,669)
Effect of currency rates on cash, cash equivalents and restricted cash	(44,054)	(2,042)
Increase in cash, cash equivalents and restricted cash	18,741,524	13,228,652
Cash, cash equivalents and restricted cash, beginning of period	27,065,423	13,836,771
Cash, cash equivalents and restricted cash, end of period	\$45,806,947	\$27,065,423
Supplemental cash flow disclosures:		
Income taxes paid	\$13,669,000	\$3,444,025
Interest paid	\$68,328	\$95,942
Non-cash investing activities:		
Change in unproved properties accrued in accounts payable and accrued liabilities	\$-	\$(65,000)
Change in proved properties accrued in accounts payable and accrued liabilities	\$(1,100,041)	\$(1,097,257)
Change in gathering system accrued in accounts payable and accrued liabilities	\$(20,118)	\$(25,399)
Asset retirement obligation asset additions and adjustments	\$12,053	\$33,234

EPSILON ENERGY LTD.

Adjusted EBITDA Reconciliation

(All amounts stated in US\$)

	Year ended December 31,	
	2022	2021
Net income	\$35,354,679	\$11,627,517
Add Back:		
Net interest expense	(402,095)	62,517
Income tax expense	12,157,487	4,440,508
Depreciation, depletion, amortization, and accretion	6,438,511	6,627,016
Impairment expense	-	153,058
Stock based compensation expense	1,021,026	956,084
(Gain) loss on derivative contracts net of cash received or paid on settlement	(1,461,914)	239,824
Foreign currency translation loss	(845)	1,454
Adjusted EBITDA	\$53,106,849	\$24,107,978

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

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that EBITDA provides useful information regarding its ability to service debt and to fund capital expenditures. It further provides investors a

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

	Twelve months ended December 31	
	2022	2021
Net cash provided by operating activities	\$ 38,005,360	\$ 20,006,377
Less: Net cash used in investing activities (Capital Expenditures)	(7,870,003)	(4,438,014)
Free cash flow	\$ 30,135,357	\$ 15,568,363
Changes in working capital	4,839,153	(939,830)
Free cash flow before Changes in Working Capital	\$ 34,974,510	\$ 14,628,533

Epsilon defines Free Cash Flow ("FCF") as net cash provided by operating activities in the period minus payments for property and equipment made in the period, adjusted to exclude changes in working capital. FCF is considered a non-GAAP financial measure under the SEC's rules. Management believes, however, that FCF is an important financial measure for use in evaluating the Company's financial performance, as it measures our ability to generate additional cash from our business operations. FCF should be considered in addition to, rather than as a substitute for, net income as a measure of our performance or net cash provided by operating activities as a measure of our liquidity. Additionally, our definition of FCF is limited and does not represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other obligations, payments made for business acquisitions, amounts spent to buy back shares, or pay dividends. Therefore, we believe it is important to view FCF as supplemental to our entire statement of cash flows

Photos accompanying this announcement are available at:

<https://www.globenewswire.com/NewsRoom/AttachmentNg/2947d9cd-5949-47d9-9b9a-8d139be9a0e2>

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