

Epsilon Energy Ltd. Announces Full Year 2023 Results

HOUSTON, March 20, 2024 (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, 2023.

Epsilon's highlights for full-year 2023 include:

- Net revenue interest (NRI) total production of 9.0 Bcfe (24.6 MMcfe per day) for the year ended December 31, 2023.
 - 8.3 Bcf net revenue interest (NRI) natural gas production, a decrease of 12% compared to 2022
 - 65.3 MBbls net revenue interest (NRI) oil production, an increase of 103% compared to 2022
 - 38.9 MBbls net revenue interest (NRI) natural gas liquids production, a decrease of 12% compared to 2022
- Average realized price of \$2.34 per Mcfe excluding hedges (\$2.70 per Mcfe including hedges) for the year ended December 31, 2023, a decrease of 62% compared to 2022.
 - Average realized price of \$1.78 per Mcf for natural gas excluding hedges (\$2.17 including hedges), a decrease of 70% compared to 2022
 - Average realized price of \$77.96 per Bbl for oil, a decrease of 21% compared to 2022
 - Average realized price of \$25.29 per Bbl for natural gas liquids, a decrease of 36% compared to 2022
- Total revenues of \$30.7 million for the year ended December 31, 2023, a decrease of 56% compared to 2022.
 - \$14.8 million from natural gas sales, a 74% decrease compared to 2022
 - \$5.1 million from oil sales, an 59% increase compared to 2022
 - \$1.0 million from natural gas liquids sales, a decrease of 43% compared to 2022
 - \$9.8 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$1.4 million), including a \$1.0 million one-time fee adjustment as a result of the operator's internal audit;
- Adjusted EBITDA of \$18.8 million for the year ended December 31, 2023.
- Free cash flow (FCF) before changes in working capital of \$2.7 million for the year ended December 31, 2023.
- Cash, cash equivalents and short term investments (U.S. Treasuries) were \$32.6 million at December 31, 2023, a decrease of 29% compared to December 31, 2022.
- Returned \$11.7 million to shareholders during the year ended December 31, 2023.
 - \$6.1 million through the repurchase of 1,158,849 shares, representing 5% of shares outstanding at December 31, 2022 at an average price of \$5.20 per share
 - \$5.6 million through the quarterly dividends
 - An additional 248,700 shares were repurchased in January 2024 at \$4.82 per share

Jason Stabell, Epsilon's Chief Executive Officer, commented, "2023 was a challenging year for natural gas but we ended the year having accomplished our key strategic objectives to diversify our business, continue robust shareholder returns and maintain a rock-solid balance sheet. Here are some further details on these three objectives:

1) We acquired interests and made drill-bit investments in the Permian basin during 2023 and again in the first quarter

of 2024, as we recently announced, adding a new core area at an attractive price. The deals diversify our commodity and basin mix and provide a multi-year investment platform of 20-30 gross 2-mile lateral locations. We expect the go-forward Permian development to be largely self-funding and contribute more than 50% of our projected upstream Adjusted EBITDA in 2024 at current forward prices.

2) We continued to return capital to our shareholders through opportunistic buybacks (repurchased over 5% of shares outstanding in 2023 and another 1+% in the first quarter of 2024) and quarterly dividends supported by our fee based midstream cash-flows.

3) We maintained ample liquidity for continued flexibility to make attractive investments and shareholder returns. We exited the year with over \$30 million in cash and short term investments, no debt, and an undrawn revolver of \$35 million. Note our cash position reduced by ~\$15 million this quarter following our recent acquisition announced and closed on February 27th.

In 2024, we expect a significant increase (YoY 2-3x) in our liquids production volumes driven by contribution from our recent acquisition and continued development in the Permian. We remain very encouraged by the results of the 2 gross wells (.5 net) put on production in Q423. The wells are performing more than 25% above our pre-drill estimates. In PA, we expect to see year-over-year declines in gas volumes as initial production on the 7 gross wells recently drilled and completed is delayed until later in the year and we experience normal declines on legacy production.

The Company remains in a strong financial position with the ability to capitalize on attractive opportunities under a variety of market conditions. We believe our stock represents an attractive risk reward with a unique mix of Permian upstream liquids and Marcellus gas assets coupled with a long-lived fee based midstream business. As we go forward in 2024, our objective remains simple: compound our shareholder's equity through attractive investments and consistent shareholder returns."

2023 Operating Results

Epsilon's capital expenditures were \$22.0 million for the year ended December 31, 2023, over a 2X increase from 2022. This capital was primarily related to leasehold acquisition and the drilling and completion of 2 gross (0.5 net) wells in Ector Co. Texas, the drilling and completion of 2 gross (0.2 net) wells in Eddy Co. New Mexico, and the drilling of 7 gross (0.7 net) wells in Susquehanna Co. Pennsylvania.

At December 31, 2023, the Company has seven gross (0.7 net) Marcellus wells waiting on completion.

The Texas wells came online in October 2023 and the New Mexico wells came online in May 2023.

The Auburn Gas Gathering System (Epsilon is a 35% owner) gathered and delivered 66.2 Bcf gross natural gas volumes (23.2 Bcf net to Epsilon's interest) during the year, or 181 MMcf/d.

Fourth Quarter 2023 Results

The Company's net revenue interest (NRI) total production was 2.3 Bcfe (24.6 MMcfe/d) for the quarter ended December 31, 2023. Natural gas NRI production was 2.0 Bcf (21.7 MMcfe/d) and oil and natural gas liquids NRI production was 44.7 MBbls (486 Bopd).

Epsilon generated revenues of \$8.6 million for the quarter ended December 31, 2023.

- \$3.5 million from natural gas sales;
- \$2.9 million from oil and natural gas liquids sales
- \$2.2 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$0.3 million);

Adjusted EBITDA of \$5.1 million for the quarter ended December 31, 2023.

Free cash flow (FCF) before changes in working capital of \$4.1 million for the quarter ended December 31, 2023.

Reserves

The Company has received the year-end 2023 third party reserves report completed by the consulting firm DeGolyer & MacNaughton. The table below summarizes the report.

Epsilon Net Year End 2023 Reserves (MMcfe)					
	12/31/2022	12/31/2023	Change	%	
Proved Developed	80,795	50,681	(30,114) -37	%
Proved Undeveloped	13,459	19,581	6,122	45	%
Total Proved	94,254	70,262	(23,992) -25	%
Probable Developed	24,943	25,375	431	2	%
Probable Undeveloped	264,011	136,099	(127,912) -48	%
Total Probable	288,954	161,474	(127,481) -44	%
Total Proved + Probable	383,210	231,736	(151,473) -40	%

As shown in the table above, Company Proved reserves decreased 25% year over year. Produced volumes accounted for 35% of the change. Lower SEC natural gas prices (\$1.64 p/Mcf for PA in 2023, \$5.32 p/Mcf for PA in 2022), which are backward looking, accounted for the rest of the declines, partially offset by additions from 2023 development activities. Pricing also drove the declines in Probable reserves.

As the Company does not operate its assets in Pennsylvania, it can have limited visibility on future development plans and timing. We are required to have line of sight on development to qualify undeveloped reserves as Proved. We anticipate reclassifying reserves in PA back to Proved once we have more clarity on development timing.

The acquired Texas properties were early life at year end 2023 and as a result the associated reserves were conservatively estimated. We anticipate adding additional oil-weighted reserves with more production history and incremental development in 2024.

One-Year Share Repurchase Program

The Board of Directors has authorized the repurchase of up to 2,191,320 common shares, representing 10% of the outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$12.0 million, pursuant to a normal course issuer bid. The one-year period will commence on March 27, 2024. The program will end on March 26, 2025 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.

Earning's Call

The Company will host a conference call to discuss its financial and operational results on Thursday, March 21, 2024 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 2023 Earnings Conference Call"

A webcast can be viewed at:

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

About Epsilon

Epsilon Energy Ltd. is a North American onshore natural gas and oil production and gathering company with assets in Pennsylvania, Texas, New Mexico, and Oklahoma.

Forward-Looking Statements

Certain statements contained in this news release constitute forward looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated. Forward-looking statements are based on reasonable assumptions, but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this news release should not be unduly relied upon.

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.

Contact Information:

281-670-0002

Jason Stabell

Chief Executive Officer

Jason.Stabell@EpsilonEnergyLTD.com

Andrew Williamson

Chief Financial Officer

Andrew.Williamson@EpsilonEnergyLTD.com

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

	Year ended December 31,	
	2023	2022
Revenues from contracts with customers:		
Gas, oil, NGL, and condensate revenue	\$20,939,221	\$61,877,197
Gas gathering and compression revenue	9,790,531	8,085,512
Total revenue	30,729,752	69,962,709
Operating costs and expenses:		
Lease operating expenses	6,405,281	7,128,631
Gathering system operating expenses	2,459,694	2,287,763
Development geological and geophysical expenses	-	9,545
Depletion, depreciation, amortization, and accretion	7,685,084	6,438,511
Loss (gain) on sale of oil and gas properties	1,449,871	(221,642)
General and administrative expenses:		
Stock based compensation expense	1,018,262	1,021,026
Other general and administrative expenses	6,293,234	6,325,412
Total operating costs and expenses	25,311,426	22,989,246
Operating income	5,418,326	46,973,463
Other income (expense):		
Interest income	1,673,241	452,877
Interest expense	(80,379)	(50,782)
Gain on derivative contracts	3,130,055	236,077
Other income (expense), net	4,357	(99,469)
Other income, net	4,727,274	538,703
Net income before income tax expense	10,145,600	47,512,166
Income tax expense	3,200,447	12,157,487
NET INCOME	\$6,945,153	\$35,354,679
Currency translation adjustments	(3,872)	(44,054)
Unrealized gain on securities	1,598	-
NET COMPREHENSIVE INCOME	\$6,942,879	\$35,310,625
Net income per share, basic	\$0.31	\$1.52
Net income per share, diluted	\$0.31	\$1.51
Weighted average number of shares outstanding, basic	22,496,772	23,319,633
Weighted average number of shares outstanding, diluted	22,511,647	23,406,189

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

December 31,	December 31,
2023	2022

ASSETS*Current assets*

Cash and cash equivalents	\$ 13,403,628	\$ 45,236,584
Accounts receivable	6,015,448	7,201,386
Short term investments	18,775,106	-
Fair value of derivatives	1,219,025	1,222,090
Prepaid income taxes	952,301	1,140,094
Other current assets	763,288	632,154
Operating lease right-of-use assets	-	31,383
Total current assets	41,128,796	55,463,691

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

Oil and gas properties, successful efforts method

Proved properties	160,263,511	148,326,265
Unproved properties	25,504,873	18,169,157
Accumulated depletion, depreciation, amortization and impairment	(113,708,210)	(107,729,293)

Total oil and gas properties, net

Gathering system	42,738,273	42,639,001
Accumulated depletion, depreciation, amortization and impairment	(35,539,996)	(34,500,740)

Total gathering system, net

Land	637,764	637,764
Buildings and other property and equipment, net	291,807	286,035
Total property and equipment, net	80,188,022	67,828,189

Other assets:

Operating lease right-of-use assets, long term	441,987	-
Restricted cash	470,000	570,363
Prepaid drilling costs	1,813,808	-
Total non-current assets	82,913,817	68,398,552

Total assets	\$ 124,042,613	\$ 123,862,243
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LIABILITIES AND SHAREHOLDERS' EQUITY*Current liabilities*

Accounts payable trade	\$ 3,149,371	\$ 1,695,353
Gathering fees payable	1,136,237	935,012
Royalties payable	1,422,898	2,223,043
Accrued capital expenditures	696,761	41,694
Accrued compensation	636,295	598,351
Other accrued liabilities	649,037	690,655
Fair value of derivatives	118,770	-
Operating lease liabilities	86,473	35,299
Total current liabilities	7,895,842	6,219,407

Non-current liabilities

Asset retirement obligations	3,502,952	2,780,237
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Deferred income taxes	11,553,943	10,617,394
Operating lease liabilities, long term	476,911	-
Total non-current liabilities	15,533,806	13,397,631
Total liabilities	23,429,648	19,617,038
Commitments and contingencies (Note 11)		
<i>Shareholders' equity</i>		
Preferred shares, no par value, unlimited shares authorized, none issued or outstanding	-	-
Common shares, no par value, unlimited shares authorized and 22,222,722 shares issued and 22,151,848 shares outstanding at December 31, 2023 and 23,117,144 issued and outstanding at December 31, 2022	118,272,565	123,904,965
Treasury shares, at cost, 70,874 at December 31, 2023 and 0 at December 31, 2022	(360,326)	-
Additional paid-in capital	10,874,491	9,856,229
Accumulated deficit	(37,946,042)	(39,290,540)
Accumulated other comprehensive income	9,772,277	9,774,551
Total shareholders' equity	100,612,965	104,245,205
Total liabilities and shareholders' equity	\$124,042,613	\$123,862,243

EPSILON ENERGY LTD.

Audited Consolidated Statements of Cash Flows

(All amounts stated in US\$)

	Year ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$6,945,153	\$35,354,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	7,685,084	6,438,511
Accretion of discount on available for sale securities	(836,528)	-
Loss (gain) on sale of oil and gas properties	1,449,871	(221,642)
Gain on derivative contracts	(3,130,055)	(236,077)
Settlement received (paid) on derivative contracts	3,251,890	(1,225,837)
Settlement of asset retirement obligation	(509,802)	(118,260)
Stock-based compensation expense	1,018,262	1,021,026
Deferred income tax expense	936,549	711,954
Changes in assets and liabilities:		
Accounts receivable	1,185,938	(2,604,455)
Prepaid income taxes	187,793	-
Other assets and liabilities	126,347	(58,368)

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

EPSILON ENERGY LTD.**Adjusted EBITDA Reconciliation***(All amounts stated in US\$)*

	Year ended December 31,	
	2023	2022
Net income	\$6,945,153	\$35,354,679
Add Back:		
Interest (income) expense, net	(1,592,862)	(402,095)
Income tax expense	3,200,447	12,157,487
Depreciation, depletion, amortization, and accretion	7,685,084	6,438,511
Stock based compensation expense	1,018,262	1,021,026
Gain (loss) on sale of assets	1,449,871	(221,642)
Loss (gain) on derivative contracts net of cash received or paid on settlement	121,835	(1,461,914)
Foreign currency translation loss	(278)	(850)
Adjusted EBITDA	\$18,827,512	\$52,885,202

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.

EPSILON ENERGY LTD.**Free Cash Flow Reconciliation***(All amounts stated in US\$)*

	Twelve months ended December 31	
	2023	2022
Net cash provided by operating activities	\$ 18,188,299	\$ 38,005,360
Less: Net cash used in investing activities (Capital Expenditures)	(18,468,802)	(7,870,003)
Free cash flow	\$ (280,503)	\$ 30,135,357
Changes in working capital	3,006,569	4,043,393
Free cash flow before Changes in Working Capital	\$ 2,726,066	\$ 34,178,750

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.



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