

**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 **June 30, 2025**

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

(State or other jurisdiction of incorporation or organization)

98-1476367

(I.R.S Employer Identification No.)

500 Dallas Street, Suite 1250

Houston, Texas 77002

(281) 670-0002

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

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

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

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 August 12, 2025, there were 22,058,574 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, 2024, 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, 2024. Our Annual Report on Form 10-K for the year ended December 31, 2024 is available on our website at www.epsilonenergy.com.

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**EPSILON ENERGY LTD.
Unaudited Condensed Consolidated Balance Sheets**

	June 30, 2025	December 31, 2024
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 9,907,653	\$ 6,519,793
Accounts receivable	5,496,883	5,843,722
Fair value of derivatives	732,528	—
Prepaid income taxes	—	975,963
Other current assets	396,264	792,041
Total current assets	<u>16,533,328</u>	<u>14,131,519</u>
<i>Non-current assets</i>		
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	197,197,902	191,879,210
Unproved properties	33,496,835	28,364,186
Accumulated depletion, depreciation, amortization and impairment	(131,899,045)	(123,281,395)
Total oil and gas properties, net	<u>98,795,692</u>	<u>96,962,001</u>
Gathering system	43,416,065	43,116,371
Accumulated depletion, depreciation, amortization and impairment	(37,057,605)	(36,449,511)
Total gathering system, net	<u>6,358,460</u>	<u>6,666,860</u>
Land	637,764	637,764
Buildings and other property and equipment, net	245,555	259,335
Total property and equipment, net	<u>106,037,471</u>	<u>104,525,960</u>
Other assets:		
Operating lease right-of-use assets, long term	295,317	344,589
Restricted cash	470,000	470,000
Prepaid drilling costs	277,552	982,717
Total non-current assets	<u>107,080,340</u>	<u>106,323,266</u>
Total assets	<u>\$ 123,613,668</u>	<u>\$ 120,454,785</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Accounts payable trade	\$ 2,018,533	\$ 2,334,732
Gathering fees payable	1,139,057	997,016
Royalties payable	1,553,262	1,400,976
Income taxes payable	1,596,958	—
Accrued capital expenditures	225,923	572,079
Accrued compensation	465,055	695,018
Other accrued liabilities	283,540	371,503
Fair value of derivatives	—	487,548
Operating lease liabilities	121,057	121,135
Total current liabilities	<u>7,403,385</u>	<u>6,980,007</u>
<i>Non-current liabilities</i>		
Asset retirement obligations	3,764,816	3,652,296
Deferred income taxes	11,958,901	12,738,577
Operating lease liabilities, long term	296,250	355,776
Total non-current liabilities	<u>16,019,967</u>	<u>16,746,649</u>
Total liabilities	<u>23,423,352</u>	<u>23,726,656</u>
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 22,017,405 shares issued and outstanding at June 30, 2025 and 22,008,766 issued and outstanding at December 31, 2024	116,081,031	116,081,031
Additional paid-in capital	12,890,583	12,118,907
Accumulated deficit	(38,688,953)	(41,505,076)
Accumulated other comprehensive income	9,907,655	10,033,267
Total shareholders' equity	<u>100,190,316</u>	<u>96,728,129</u>
Total liabilities and shareholders' equity	<u>\$ 123,613,668</u>	<u>\$ 120,454,785</u>

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

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Revenues from contracts with customers:				
Gas, oil, NGL, and condensate revenue	\$ 9,779,728	\$ 5,863,370	\$ 24,050,518	\$ 11,914,415
Gas gathering and compression revenue	1,845,005	1,444,448	3,737,355	3,380,146
Total revenue	<u>11,624,733</u>	<u>7,307,818</u>	<u>27,787,873</u>	<u>15,294,561</u>
Operating costs and expenses:				
Lease operating expenses	2,462,785	1,649,867	5,218,683	3,418,329
Gathering system operating expenses	613,795	649,967	1,166,446	1,202,537
Depletion, depreciation, amortization, and accretion	3,201,654	2,048,403	6,677,511	4,428,829
Impairment expense	2,670,000	—	2,676,669	—
General and administrative expenses:				
Stock based compensation expense	385,838	313,589	771,676	635,158
Other general and administrative expenses	1,461,878	1,478,215	3,280,296	3,037,238
Total operating costs and expenses	<u>10,795,950</u>	<u>6,140,041</u>	<u>19,791,281</u>	<u>12,722,091</u>
Operating income	<u>828,783</u>	<u>1,167,777</u>	<u>7,996,592</u>	<u>2,572,470</u>
Other income (expense):				
Interest income	17,247	108,943	32,546	375,215
Interest expense	(19,906)	(8,759)	(32,117)	(17,519)
Gain (loss) on derivative contracts	2,573,863	(94,891)	1,111,693	(195,617)
Other (expense) income	(10,839)	101,606	(33,338)	101,073
Other income, net	<u>2,560,365</u>	<u>106,899</u>	<u>1,078,784</u>	<u>263,152</u>
Net income before income tax expense	3,389,148	1,274,676	9,075,376	2,835,622
Income tax expense	1,837,687	459,016	3,507,881	513,066
NET INCOME	\$ 1,551,461	\$ 815,660	\$ 5,567,495	\$ 2,322,556
Currency translation adjustments	(75,496)	22,229	(125,612)	22,593
Unrealized gain (loss) on securities	—	3,011	—	(1,598)
NET COMPREHENSIVE INCOME	<u>\$ 1,475,965</u>	<u>\$ 840,900</u>	<u>\$ 5,441,883</u>	<u>\$ 2,343,551</u>
Net income per share, basic	\$ 0.07	\$ 0.04	\$ 0.25	\$ 0.11
Net income per share, diluted	\$ 0.07	\$ 0.04	\$ 0.25	\$ 0.11
Weighted average number of shares outstanding, basic	22,017,310	21,921,752	22,013,062	21,957,980
Weighted average number of shares outstanding, diluted	22,202,315	22,029,475	22,155,629	21,987,142

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

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

	Common Shares Issued		Treasury Shares		Additional paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2025	22,008,766	\$ 116,081,031	—	\$ —	\$ 12,118,907	\$ 10,033,267	\$ (41,505,076)	\$ 96,728,129
Net income	—	—	—	—	—	—	4,016,034	4,016,034
Dividends paid	—	—	—	—	—	—	(1,375,612)	(1,375,612)
Stock-based compensation expense	—	—	—	—	385,838	—	—	385,838
Other comprehensive loss	—	—	—	—	—	(50,116)	—	(50,116)
Balance at March 31, 2025	22,008,766	\$ 116,081,031	—	\$ —	\$ 12,504,745	\$ 9,983,151	\$ (38,864,654)	\$ 99,704,273
Net income	—	—	—	—	—	—	1,551,461	1,551,461
Dividends paid	—	—	—	—	—	—	(1,375,760)	(1,375,760)
Stock-based compensation expense	—	—	—	—	385,838	—	—	385,838
Vesting of shares of restricted stock	8,639	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(75,496)	—	(75,496)
Balance at June 30, 2025	22,017,405	\$ 116,081,031	—	\$ —	12,890,583	\$ 9,907,655	\$ (38,688,953)	\$ 100,190,316

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

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

EPSILON ENERGY LTD.
Unaudited Condensed Consolidated Statements of Cash Flows

	<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Net income	\$ 5,567,495	\$ 2,322,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	6,677,511	4,428,829
Impairment expense	2,676,669	—
Accretion of discount on available for sale securities	—	(297,637)
(Gain) loss on derivative contracts	(1,111,693)	195,617
Settlement (paid) received on derivative contracts	(108,383)	760,542
Settlement of asset retirement obligation	(1,600)	(87,284)
Stock-based compensation expense	771,676	635,158
Deferred income tax benefit	(779,676)	(54,736)
Changes in assets and liabilities:		
Accounts receivable	346,839	1,070,784
Prepaid income taxes	—	319,770
Other assets and liabilities	385,445	354,014
Accounts payable, royalties payable, gathering fees payable, and other accrued liabilities	(66,454)	(572,099)
Income taxes payable	2,572,921	—
Net cash provided by operating activities	16,930,750	9,075,514
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(5,132,649)	(2,993,155)
Additions to proved oil and gas properties	(5,997,993)	(26,425,017)
Additions to gathering system properties	(228,327)	(70,236)
Additions to land, buildings and property and equipment	(12,102)	(13,912)
Purchases of short term investments - available for sale	—	(4,045,785)
Proceeds from short term investments - held to maturity	—	23,116,930
Prepaid drilling costs	705,165	886,981
Net cash used in investing activities	(10,665,906)	(9,544,194)
Cash flows from financing activities:		
Buyback of common shares	—	(1,203,708)
Dividends paid	(2,751,372)	(2,742,349)
Net cash used in financing activities	(2,751,372)	(3,946,057)
Effect of currency rates on cash, cash equivalents, and restricted cash	(125,612)	22,593
Decrease in cash, cash equivalents, and restricted cash	3,387,860	(4,392,144)
Cash, cash equivalents, and restricted cash, beginning of period	6,989,793	13,873,628
Cash, cash equivalents, and restricted cash, end of period	\$ 10,377,653	\$ 9,481,484
Supplemental cash flow disclosures:		
Income tax paid - federal	\$ 1,325,000	\$ 140,000
Income tax paid - state (PA)	\$ 355,138	\$ —
Income tax paid (refund) - state (other)	\$ 1,710	\$ (8,608)
Interest paid	\$ 9,552	\$ —
Non-cash investing activities:		
Change in proved properties accrued in accounts payable	\$ (690,866)	\$ (1,471,985)
Change in gathering system accrued in accounts payable	\$ 71,366	\$ 45,862
Asset retirement obligation asset additions and adjustments	\$ 18,235	\$ 21,831

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

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

1. Description of Business

Epsilon Energy Ltd. (the “Company” or “Epsilon” or “we”) was incorporated under the laws of the Province of Alberta, Canada on March 14, 2005, pursuant to the Alberta Business Corporations Act. 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.” 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, 2024. 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

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. The amendments will be effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is evaluating the impact of

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

this new standard and believes that the adoption will result in additional disclosures, but will not have any other impact on its consolidated financial statements.

In March 2024, the FASB issued ASU No. 2024-01, Compensation – Stock Compensation (Topic 718): Scope Applications of Profits Interest and Similar Awards (“ASU 2024-01”). The amendments in ASU 2024-01 improve its overall clarity and operability without changing the guidance and adding illustrative examples to determine whether profits interest award should be accounted for in accordance with Topic 718. The Company has adopted ASU No. 2024-01 as of January 1, 2025. There was no impact as a result of the adoption of this ASU.

In November 2024, the FASB issued ASU 2024-3 "Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures." The ASU will improve the decision usefulness for investors by requiring public business entities to disclose more detailed information about their expenses such as (a) inventory and manufacturing expense, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, etc. The amendments will be effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The amendments will be applied prospectively with an option for a retrospective application. The Company is evaluating the impact of this new standard and believes that the adoption will result in additional disclosures, but will not have any other impact on its consolidated financial statements.

In July 2025, the FASB issued ASU 2025-05, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit losses for Accounts Receivable and Contract Assets. The amendments in this update provide (1) all entities with a practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets and (2) entities other than public business entities with an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. The amendments will be effective for fiscal years beginning after December 15, 2025, with early adoption permitted. The Company is evaluating the impact of this new standard and believes that the adoption may result in additional disclosures, but will not have any other impact on its 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 June 30, 2025 and December 31, 2024:

	June 30, 2025	December 31, 2024
Cash and cash equivalents	\$ 9,907,653	\$ 6,519,793
Restricted cash included in other assets	470,000	470,000
Cash, cash equivalents, and restricted cash in the statement of cash flows	<u>\$ 10,377,653</u>	<u>\$ 6,989,793</u>

4. Short Term Investments

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

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

As of June 30, 2025 and December 31, 2024, the Company had no short term investments.

During the six months ended June 30, 2024, the Company sold securities with a carrying amount of \$14,989,595 for total proceeds of \$15,336,930. The realized gains on these sales were \$347,335. An additional \$7,780,000 of securities reached maturity with total realized gains of \$234,248. During the three months ended June 30, 2024, the Company sold securities with a carrying amount of \$7,986,472 for total proceeds of \$8,177,645. The realized gains on these sales were \$191,173. An additional \$4,145,000 of securities reached maturity with total realized gains of \$99,215. The realized gains are included in other income in the consolidated Statements of Operations and Comprehensive Income.

5. Property and Equipment

The following table summarizes the Company's property and equipment as of June 30, 2025 and December 31, 2024:

	June 30, 2025	December 31, 2024
Property and equipment:		
Oil and gas properties, successful efforts method		
Proved properties	\$ 197,197,902	\$ 191,879,210
Unproved properties	33,496,835	28,364,186
Accumulated depletion, depreciation, amortization and impairment	(131,899,045)	(123,281,395)
Total oil and gas properties, net	98,795,692	96,962,001
Gathering system	43,416,065	43,116,371
Accumulated depletion, depreciation, amortization and impairment	(37,057,605)	(36,449,511)
Total gathering system, net	6,358,460	6,666,860
Land	637,764	637,764
Buildings and other property and equipment, net	245,555	259,335
Total property and equipment, net	\$ 106,037,471	\$ 104,525,960

Asset Acquisitions

During the six months ended June 30, 2025, Epsilon had no asset acquisitions.

During the six months ended June 30, 2024, Epsilon acquired assets that included the following:

- a 25% working interest in three producing wells located in Ector County, Texas.
- a 25% working interest in an additional 3,620 gross undeveloped acres in Ector County, Texas.
- a 50% working interest in 14,243 gross undeveloped acres in Alberta, Canada.

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.

Property Impairment

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

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During the three and six months ended June 30, 2025, Epsilon recorded an impairment of \$2.7 million for two wells drilled in Alberta, Canada. The impairment was a result of a decrease in estimated reserves due to early production coming in below expectations, cost overruns and lower forward commodity prices.

During the three and six months ended June 30, 2024, no impairment was recorded. For the year ended December 31, 2024, the Company had \$0.53 million of impairment reflected in proved properties on the Consolidated Balance Sheets. To be consistent with the current presentation, the prior year impairment has been reclassified to accumulated depletion, depreciation, amortization and impairment on the Consolidated Balance Sheets.

6. Revolving Line of Credit

The Company closed a senior secured reserve based revolving credit facility on June 28, 2023, with Frost Bank as issuing bank and sole lender. The current borrowing base is \$45 million (redetermined as of February 10, 2025), supported by the Company’s upstream assets in Pennsylvania and subject to semi-annual redeterminations with a maturity date of June 28, 2027. Interest will be charged at the Daily Simple SOFR rate plus a margin of 3.25%. The facility is secured by the assets of the Company’s Epsilon Energy USA subsidiary (Borrower). There are currently no borrowings under the facility.

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 June 30, 2025.

	Balance at June 30, 2025	Balance at December 31, 2024	Current Borrowing Base	Interest Rate
Revolving line of credit	\$ —	\$ —	\$ 45,000,000	SOFR + 3.25%

7. Shareholders’ Equity

(a) Authorized shares

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

(b) Purchases of Equity Shares

Normal Course Issuer Bid

On February 12, 2025, Epsilon’s board of directors (the “Board”) authorized a new share repurchase program of up to 2,200,876 common shares, representing 10% of the current outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$13.0 million. The program commenced on February 12, 2025 and ends on February 11, 2026, unless the maximum amount of common shares is purchased before then or the Board approves earlier termination.

The previous share repurchase program commenced on March 19, 2024. During the year ended December 31, 2024, we repurchased 125,000 common shares and spent \$627,500 at an average price of \$5.00 per share (excluding commissions) under the plan. On February 12, 2025, the Board terminated and revoked authority under the program.

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During the six months ended June 30, 2025, no shares were repurchased under the new or previous program.

(c) Equity Incentive Plan

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.

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

Restricted Stock

For the six months ended June 30, 2025, no restricted common shares were awarded to the Company’s board of directors and employees. For the year ended December 31, 2024, 300,052 restricted common shares with a weighted average grant date fair value of \$5.97 were awarded to the Company’s management, employees, and board of directors. These shares vest over a three-year period, with an equal number of shares being issued per period on the anniversary of the award resolution. The vesting of the shares is contingent on the individuals’ continued employment or service. The Company determined the fair value of the granted Restricted Stock based on the market price of the common shares of the Company on the date of grant.

The following table summarizes restricted stock activity for the six months ended June 30, 2025, and the year ended December 31, 2024:

	Six months ended June 30, 2025			Year ended December 31, 2024		
	Number of Restricted Shares Outstanding	Weighted Average Remaining Life (years)	Weighted Average Grant Date Fair Value	Number of Restricted Shares Outstanding	Weighted Average Remaining Life (years)	Weighted Average Grant Date Fair Value
Balance non-vested Restricted Stock at beginning of period	560,970	1.61	\$ 5.77	491,536	1.74	\$ 5.59
Granted	—	—	-	300,052	1.92	5.97
Vested	(8,639)	—	6.15	(230,618)	—	5.65
Balance non-vested Restricted Stock at end of period	<u>552,331</u>	<u>1.11</u>	<u>\$ 5.77</u>	<u>560,970</u>	<u>1.61</u>	<u>\$ 5.77</u>

Stock compensation expense for the granted Restricted Stock is recognized over the vesting period. Stock compensation expense recognized during the three and six months ended June 30, 2025 was \$385,838 and \$771,676, respectively (for the three and six months ended June 30, 2024 was \$313,589 and \$ 635,158, respectively).

As of June 30, 2025, the Company had unrecognized stock-based compensation related to these shares of \$2,426,793 to be recognized over a weighted average period of 1.14 years (at December 31, 2024: \$3,198,469 over 1.30 years).

(d) Dividends

On February 26, 2025 and June 3, 2025, the Board declared quarterly a dividend of \$0.0625 per common share (annualized \$0.25 per common share) totaling in aggregate an amount of approximately \$2.8 million that has been paid during the six months ended June 30, 2025.

8. Revenue Recognition

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

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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 \$0.5 million and \$1.1 million, respectively, for the three and six months ended June 30, 2025 (\$0.3 million and \$0.6 million, respectively, for the three and six months ended June 30, 2024).

The following table details revenue for the three and six months ended June 30, 2025 and 2024.

	<u>Three months ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Operating revenue				
Natural gas	\$ 6,910,344	\$ 1,961,230	\$ 17,523,917	\$ 4,924,209
Natural gas liquids	145,020	388,423	532,270	761,407
Oil and condensate	2,724,364	3,513,717	5,994,331	6,228,799
Gathering and compression fees ⁽¹⁾	1,845,005	1,444,448	3,737,355	3,380,146
Total operating revenue	<u>\$ 11,624,733</u>	<u>\$ 7,307,818</u>	<u>\$ 27,787,873</u>	<u>\$ 15,294,561</u>

⁽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 and Comprehensive Income.

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

Gas Gathering and Compression Revenue

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

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

Current Expected Credit Losses

Under ASU 326, Financial Instruments – Credit Losses, estimated losses on financial assets are provided through an allowance for credit losses. The majority of our financial assets are held in cash and cash equivalents and accounts receivable. The accounts receivable 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 receivable 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,

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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 June 30, 2025 and December 31, 2024, we determined that our allowance for credit loss was nil.

	June 30, 2025	December 31, 2024	December 31, 2023
Accounts receivable			
Natural gas and oil sales	\$ 3,946,643	\$ 4,888,294	\$ 4,327,886
Joint interest billing	—	—	17,476
Gathering and compression fees	1,434,591	918,471	1,543,239
Commodity contract	115,649	36,957	72,075
Interest	—	—	54,772
Total accounts receivable	<u>\$ 5,496,883</u>	<u>\$ 5,843,722</u>	<u>\$ 6,015,448</u>

9. Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes certain transactions that have generally been reported in the Consolidated Statements of Changes in Shareholders' Equity. The activity in accumulated other comprehensive income during the three and six months ended June 30, 2025 and 2024 consisted of the following:

	Three months ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Balance at beginning of period	\$ 9,983,151	\$ 9,768,032	\$ 10,033,267	\$ 9,772,277
Translation (loss)/gain	(75,496)	22,229	(125,612)	22,593
Unrealized gain/(loss) on securities	—	3,011	—	(1,598)
Balance at end of period	<u>\$ 9,907,655</u>	<u>\$ 9,793,272</u>	<u>\$ 9,907,655</u>	<u>\$ 9,793,272</u>

10. Income Taxes

Income tax provisions for the three and six months ended June 30, 2025 and 2024 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Current:				
Federal	\$ 1,794,581	\$ 401,042	\$ 3,358,642	\$ 467,310
State	501,330	89,717	928,915	100,492
Total current income tax expense	<u>2,295,911</u>	<u>490,759</u>	<u>4,287,557</u>	<u>567,802</u>
Deferred:				
Federal	(413,762)	(23,214)	(704,026)	354,385
State	(44,462)	(8,529)	(75,650)	(409,121)
Total deferred tax expense	<u>(458,224)</u>	<u>(31,743)</u>	<u>(779,676)</u>	<u>(54,736)</u>
Income tax expense	<u>\$ 1,837,687</u>	<u>\$ 459,016</u>	<u>\$ 3,507,881</u>	<u>\$ 513,066</u>

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

The Company believes it has appropriate support for the income tax positions taken and to be taken on our tax returns and that the accruals for tax liabilities are adequate for all open years based on our assessment of various factors including past experience and interpretations of tax law applied to the facts of each matter. The Company's tax returns are

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open to audit under the statute of limitations for the years ending December 31, 2021 through December 31, 2024. 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 six months ended June 30, 2025 was higher than the statutory federal rate as a result of state income taxes partially offset by the valuation allowance against the Canadian net operating loss.

On July 4, 2025, Public Law No. 119-21, commonly referred to as the One Big Beautiful Bill Act (the “Act”), was enacted by the U.S. government. While the enactment of the Act does not have an impact on the historical financial data, the Company’s future tax liabilities may be impacted. Among other changes, the Act: (i) allows for 100% expensing of the costs of certain qualified property acquired after January 19, 2025; (ii) allows election to immediately deduct R&D costs incurred; and (iii) modifies the provision related to the limitations on deduction of interest expense.

The Company expects to realize net benefits from U.S. tax reform, primarily driven by the accelerated depreciation of qualified assets for tax purposes. However, the Company continues to evaluate the impacts of the Act and further understand its implications, as well as the related, and yet to be issued, regulations and interpretations which could impact this outlook.

11. Commitments and Contingencies

The Company enters into commitments for capital expenditures in advance of the expenditures being made. As of June 30, 2025, the Company had commitments of \$1.9 million for capital expenditures.

12. Leases

Under ASC 842, Leases, the Company recognized an operating lease related to its corporate office as of June 30, 2025 and December 31, 2024 as summarized in the following table:

	<u>June 30, 2025</u>	<u>December 31, 2024</u>
Asset		
Operating lease right-of-use assets, long term	\$ 295,317	\$ 344,589
Total operating lease right-of-use assets	<u>\$ 295,317</u>	<u>\$ 344,589</u>
Liabilities		
Operating lease liabilities	\$ 121,057	\$ 121,135
Operating lease liabilities, long term	296,250	355,776
Total operating lease liabilities	<u>\$ 417,307</u>	<u>\$ 476,911</u>
Operating lease costs	\$ 120,926	\$ 236,044
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 152,709	\$ 214,230
Weighted average remaining lease term (years) - operating lease	2.29	2.50
Weighted average discount rate (annualized) - operating lease	8.25%	8.25%

On March 1, 2023, the Company commenced a new office lease with a 70 month lease term and future lease payments estimated to be approximately \$0.85 million. There are no other pending leases, and no lease arrangements in which the Company is the lessor.

Lease expense for operating leases was \$0.12 million and \$0.24 million for the six months ended June 30, 2025 and

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the year ended December 31, 2024, 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 June 30, 2025 are as follows:

	Operating Leases
2025	\$ 86,775
2026	177,021
2027	180,492
2028	183,963
Total minimum lease payments	628,251
Less: imputed interest	(210,944)
Present value of future minimum lease payments	417,307
Less: current obligations under leases	(121,057)
Long-term lease obligations	\$ 296,250

13. Net Income Per Share

Basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed based upon the weighted-average number of 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:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2025	2024	2025	2024
Net income	\$ 1,551,461	\$ 815,660	\$ 5,567,495	\$ 2,322,556

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2025	2024	2025	2024
Basic weighted-average number of shares outstanding	22,017,310	21,921,752	22,013,062	21,957,980
Unvested time-based restricted shares	185,005	107,723	142,567	29,162
Diluted weighted-average shares outstanding	22,202,315	22,029,475	22,155,629	21,987,142

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2025	2024	2025	2024
Anti-dilutive unvested time-based restricted shares	367,421	492,463	411,203	512,389

14. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive management consisting of the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer. The CODM uses the Company's consolidated financial results, including operating income or loss by segment, to make key operating decisions, assess performance, and to allocate resources.

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Segment performance is evaluated based on operating income or loss as shown in the table below. Interest income and income taxes are managed separately on a group basis.

The Company's reportable segments are as follows:

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

Segment activity for the six months ended June 30, 2025 and 2024 is as follows:

	<u>Upstream</u>	<u>Gas Gathering</u>	<u>Consolidated</u>
As of and for the six months ended June 30, 2025			
Operating revenue			
Natural gas	\$ 17,523,917	\$ —	\$ 17,523,917
Natural gas liquids	532,270	—	532,270
Oil and condensate	5,994,331	—	5,994,331
Gathering and compression fees	—	3,737,355	3,737,355
Intersegment gathering and compression fees	—	1,064,223	1,064,223
	<u>24,050,518</u>	<u>4,801,578</u>	<u>28,852,096</u>
Reconciliation of operating revenue			
Elimination of intersegment revenues			(1,064,223)
Total consolidated operating revenue⁽¹⁾			<u>27,787,873</u>
Operating costs			
Gathering, transportation, and compression	3,978,175	—	3,978,175
Other lease operating expense	1,240,508	—	1,240,508
Gathering system operating expenses	—	1,166,446	1,166,446
Intersegment other lease operating expense	1,064,223	—	1,064,223
Impairment	2,676,669	—	2,676,669
Depletion, depreciation, amortization and accretion	6,065,544	611,967	6,677,511
Segment operating income	<u>\$ 9,025,399</u>	<u>\$ 3,023,165</u>	<u>\$ 10,984,341</u>
Reconciliation of segment operating income			
Salary expense			1,789,792
Stock based compensation			771,676
Other general and administrative			1,490,504
Elimination of intersegment other lease operating expenses			(1,064,223)
Total consolidated operating income			<u>7,996,592</u>
Other income (expense)			
Interest income			32,546
Interest expense			(32,117)
Loss on derivative contracts			1,111,693
Other expense			(33,338)
Other expense, net			<u>1,078,784</u>
Net income before income tax expense			<u>\$ 9,075,376</u>
Capital expenditures⁽²⁾	<u>\$ 11,142,744</u>	<u>\$ 228,327</u>	<u>\$ 11,371,071</u>
Segment assets	<u>\$ 99,073,244</u>	<u>\$ 6,358,460</u>	<u>\$ 105,431,704</u>
Total segment assets reconciled to consolidated amounts are as follows:			
Total segment assets			\$ 105,431,704
Current assets, net			16,533,328
Other property and equipment			883,319
Operating lease right-of-use asset			295,317
Restricted cash			470,000
			<u>\$ 123,613,668</u>

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	<u>Upstream</u>	<u>Gas Gathering</u>	<u>Consolidated</u>
As of and for the six months ended June 30, 2024			
Operating revenue			
Natural gas	\$ 4,924,209	\$ —	\$ 4,924,209
Natural gas liquids	761,407	—	761,407
Oil and condensate	6,228,799	—	6,228,799
Gathering and compression fees	—	3,380,146	3,380,146
Intersegment gathering and compression fees	—	591,907	591,907
	<u>11,914,415</u>	<u>3,972,053</u>	<u>15,886,468</u>
Reconciliation of operating revenue			
Elimination of intersegment revenues			(591,907)
Total consolidated operating revenue⁽¹⁾			<u>15,294,561</u>
Operating costs			
Gathering, transportation, and compression	2,602,378	—	2,602,378
Other lease operating expense	815,951	—	815,951
Gathering system operating expenses	—	1,202,537	1,202,537
Intersegment other lease operating expense	591,907	—	591,907
Depletion, depreciation, amortization and accretion	4,007,320	421,509	4,428,829
Segment operating income	<u>\$ 3,896,859</u>	<u>\$ 2,348,007</u>	<u>\$ 5,652,959</u>
Reconciliation of segment operating income			
Salary expense			1,461,549
Stock based compensation			635,158
Other general and administrative			1,575,689
Elimination of intersegment other lease operating expenses			(591,907)
Total consolidated operating income			<u>2,572,470</u>
Other income (expense)			
Interest income			375,215
Interest expense			(17,519)
Gain on derivative contracts			(195,617)
Other expense			101,073
Other income, net			263,152
Net income before income tax expense			<u>\$ 2,835,622</u>
Capital expenditures⁽²⁾	\$ 29,432,084	\$ 70,236	\$ 29,502,320
Segment assets	\$ 97,059,040	\$ 6,896,509	\$ 103,955,549
Total segment assets reconciled to consolidated amounts are as follows:			
Total segment assets			\$ 103,955,549
Current assets, net			14,977,407
Other property and equipment			919,208
Operating lease right-of-use asset			392,792
Restricted cash			900,000
			<u>\$ 121,144,956</u>

(1) Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the six months ended June 30, 2025 and 2024 have been eliminated upon consolidation. For the six months ended June 30, 2025, Epsilon sold natural gas to 34 unique customers. The one customer over 10% comprised 34% of total revenue. For the six months ended June 30, 2024, Epsilon sold natural gas to 29 unique customers. The three customers over 10% comprised 14%, 11%, and 10% 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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Segment activity for the three months ended June 30, 2025 and 2024 is as follows:

	<u>Upstream</u>	<u>Gas Gathering</u>	<u>Consolidated</u>
As of and for the three months ended June 30, 2025			
Operating revenue			
Natural gas	\$ 6,910,344	\$ —	\$ 6,910,344
Natural gas liquids	145,020	—	145,020
Oil and condensate	2,724,364	—	2,724,364
Gathering and compression fees	—	1,845,005	1,845,005
Intersegment gathering and compression fees	—	507,365	507,365
	<u>9,779,728</u>	<u>2,352,370</u>	<u>12,132,098</u>
Reconciliation of operating revenue			
Elimination of intersegment revenues			<u>(507,365)</u>
Total consolidated operating revenue⁽¹⁾			11,624,733
Operating costs			
Gathering, transportation, and compression	1,924,460	—	1,924,460
Other lease operating expense	538,325	—	538,325
Gathering system operating expenses	—	613,795	613,795
Intersegment other lease operating expense	507,365	—	507,365
Impairment	2,670,000	—	2,670,000
Depletion, depreciation, amortization and accretion	2,919,238	282,416	3,201,654
Segment operating income	\$ 1,220,340	\$ 1,456,159	\$ 2,169,134
Reconciliation of segment operating income			
Salary expense			710,122
Stock based compensation			385,838
Other general and administrative			751,756
Elimination of intersegment other lease operating expenses			<u>(507,365)</u>
Total consolidated operating income			828,783
Other income (expense)			
Interest income			17,247
Interest expense			(19,906)
Gain on derivative contracts			2,573,863
Other expense			(10,839)
Other expense, net			<u>2,560,365</u>
Net income before income tax expense			\$ 3,389,148
Capital expenditures⁽²⁾	\$ 3,502,977	\$ 124,052	\$ 3,627,029

Epsilon Energy Ltd.
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	<u>Upstream</u>	<u>Gas Gathering</u>	<u>Consolidated</u>
As of and for the three months ended June 30, 2024			
Operating revenue			
Natural gas	\$ 1,961,230	\$ —	\$ 1,961,230
Natural gas liquids	388,423	—	388,423
Oil and condensate	3,513,717	—	3,513,717
Gathering and compression fees	—	1,444,448	1,444,448
Intersegment gathering and compression fees	—	277,509	277,509
	<u>5,863,370</u>	<u>1,721,957</u>	<u>7,585,327</u>
Reconciliation of operating revenue			
Elimination of intersegment revenues			(277,509)
Total consolidated operating revenue⁽¹⁾			<u>7,307,818</u>
Operating costs			
Gathering, transportation, and compression	1,231,981	—	1,231,981
Other lease operating expense	417,886	—	417,886
Gathering system operating expenses	—	649,967	649,967
Intersegment other lease operating expense	277,509	—	277,509
Depletion, depreciation, amortization and accretion	1,877,611	170,792	2,048,403
Segment operating income	<u>\$ 2,058,383</u>	<u>\$ 901,198</u>	<u>\$ 2,682,072</u>
Reconciliation of segment operating income			
Salary expense			15,838
Stock based compensation			313,589
Other general and administrative			1,462,377
Elimination of intersegment other lease operating expenses			(277,509)
Total consolidated operating income			<u>1,167,777</u>
Other income (expense)			
Interest income			108,943
Interest expense			(8,759)
Gain on derivative contracts			(94,891)
Other expense			101,606
Other income, net			106,899
Net income before income tax expense			<u>\$ 1,274,676</u>
Capital expenditures⁽²⁾	<u>\$ 9,109,756</u>	<u>\$ 47,586</u>	<u>\$ 9,157,342</u>

(3) Segment operating revenue represents revenues generated from the operations of the segment. Inter-segment sales during the three months ended June 30, 2025 and 2024 have been eliminated upon consolidation. For the three months ended June 30, 2025, Epsilon sold natural gas to 31 unique customers. The two customers over 10% comprised 44% and 14% of total revenue. For the three months ended June 30, 2024, Epsilon sold natural gas to 26 unique customers. The three customers over 10% comprised 20%, 15% and 14% of total revenue.

(4) 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.

15. Commodity Risk Management Activities

Commodity Price Risks

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

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

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

Epsilon has historically elected not to designate any of its financial commodity derivative contracts as accounting hedges and, accordingly, accounts for these financial commodity derivative contracts using the mark-to-market accounting method. Under this accounting method, changes in the fair value of outstanding financial instruments are recognized as gains or losses in the period of change and are recorded as *Loss on derivative contracts* on the condensed Consolidated Statements of Operations and Comprehensive Income. The related cash flow impact is reflected in cash flows from operating activities. During the three and six months ended June 30, 2025, Epsilon recognized gains on commodity derivative contracts of \$2,573,863 and \$1,111,693, respectively. These amounts included cash received of \$306,660 and cash paid of \$108,383 on settlements on these contracts, respectively. For the three and six months ended June 30, 2024, Epsilon recognized losses on commodity derivative contracts of \$94,891 and \$195,617, respectively. These amounts included cash received on settlements on these contracts of \$272,257 and \$760,542, respectively.

Commodity Derivative Contracts

At June 30, 2025, the Company had outstanding natural gas NYMEX Henry Hub ("HH") swaps totaling 2.67 Bcf, natural gas Tennessee Z4 basis swaps totaling 0.78 Bcf, natural gas NYMEX HH options totaling 0.93 Bcf, and crude oil NYMEX WTI CMA swaps totaling 40 MBbls.

	Fair Value of Derivative Assets	
	June 30, 2025	December 31, 2024
Current		
Henry Hub Nymex Swap	\$ 322,385	\$ 151,274
Tennessee Z4 Basis swap	351,769	195,211
Henry Hub Nymex Option - Put	181,254	—
Crude Oil NYMEX WTI CMA	263,462	56,547
Long-term		
Henry Hub Nymex Swap	7,225	—
Henry Hub Nymex Option - Put	222,199	—
	<u>\$ 1,348,294</u>	<u>\$ 403,032</u>
	Fair Value of Derivative Liabilities	
	June 30, 2025	December 31, 2024
Current		
Henry Hub Nymex Swap	\$ (264,965)	\$ (448,852)
Tennessee Z4 Basis swap	—	(441,728)
Henry Hub Nymex Option - Call	(105,437)	—
Long-term		
Henry Hub Nymex Swap	(51,406)	—
Henry Hub Nymex Option - Call	(193,958)	—
	<u>\$ (615,766)</u>	<u>\$ (890,580)</u>
Net Fair Value of Derivatives	<u>\$ 732,528</u>	<u>\$ (487,548)</u>

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2025	2024	2025	2024
Fair value of (liability) asset, beginning of the period	\$ (1,534,675)	\$ 511,244	\$ (487,548)	\$ 1,100,255
Gain/(loss) on derivative contracts included in earnings	2,573,863	(94,891)	1,111,693	(195,617)
Settlement of commodity derivative contracts	(306,660)	(272,257)	108,383	(760,542)
Fair value of asset, end of the period	<u>\$ 732,528</u>	<u>\$ 144,096</u>	<u>\$ 732,528</u>	<u>\$ 144,096</u>

16. Asset Retirement Obligations

Asset retirement obligations are estimated by management based on Epsilon's net ownership interest in all wells and the gathering system, estimated costs to reclaim and abandon such assets and the estimated timing of the costs to be incurred in future periods, and the forecast risk free cost of capital. Each year we review, and to the extent necessary, revise our asset retirement obligations estimates in accordance with recent activity and current service costs.

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

	<u>Six Months Ended</u>	<u>Year ended</u>
	<u>June 30,</u>	<u>December 31,</u>
	2025	2024
Balance beginning of period	\$ 3,652,296	\$ 3,502,952
Liabilities acquired	18,235	48,207
Wells plugged and abandoned	(1,600)	(88,992)
Change in estimates	—	6,695
Accretion	95,885	183,434
Balance end of period	<u>\$ 3,764,816</u>	<u>\$ 3,652,296</u>

17. Fair Value Measurements

The methodologies used to determine the fair value of our financial assets and liabilities at June 30, 2025 were the same as those used at December 31, 2024.

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

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

	<u>June 30, 2025</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Effect of Netting</u>	<u>Net Fair Value</u>
Assets					
Derivative contracts	\$ —	\$ 1,348,294	\$ —	\$ (615,766)	\$ 732,528
Cash equivalents	\$ 261,512	\$ —	\$ —	\$ —	\$ 261,512
Liabilities					
Derivative contracts	\$ —	\$ 615,766	\$ —	\$ (615,766)	\$ —

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

	December 31, 2024				
	Level 1	Level 2	Level 3	Effect of Netting	Net Fair Value
Assets					
Derivative contracts	\$ —	\$ 403,032	\$ —	\$ (403,032)	\$ —
Cash equivalents	\$ 298,767	\$ —	\$ —	\$ —	\$ 298,767
Liabilities					
Derivative contracts	\$ —	\$ 890,580	\$ —	\$ (403,032)	\$ 487,548

Non-Recurring Fair Value Measurements

The Company performed an impairment test on our oil and gas properties and it was determined that the carrying amount of the Canada asset exceeded the estimated undiscounted future cash flows resulting in a reduction of the carrying amount of the properties to their estimated fair values by \$2.7 million. This nonrecurring fair value measurement is classified within Level 3 of the fair value hierarchy. For the year ended December 31, 2024, there was an impairment of \$1.45 million.

The table below summarizes the fair value of the impaired assets at June 30, 2025.

	June 30, 2025	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Nonrecurring fair value measurement				
Long-lived assets held and used	\$ 1,342,942	\$ —	\$ —	\$ 1,342,942
Total Nonrecurring fair value measurement	<u>\$ 1,342,942</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,342,942</u>

The table below summarizes the fair value of the impaired assets at December 31, 2024.

	December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Nonrecurring fair value measurement				
Long-lived assets held and used	\$ 492,253	\$ —	\$ —	\$ 492,253
Total Nonrecurring fair value measurement	<u>\$ 492,253</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 492,253</u>

18. Subsequent Events

On August 11, 2025, Epsilon signed definitive agreements to acquire two entities, Peak Exploration and Production LLC and Peak BLM Lease LLC (together, “Peak”). Consideration at closing is proposed as the issuance of 6 million Epsilon common shares and the assumption of approximately \$49 million in debt. Additional consideration is proposed as the issuance of 1.5 - 2.5 million Epsilon common shares are contingent on the receipt of drilling permits on, and the ability to access, leasehold currently affected by a drilling moratorium in Converse County, Wyoming. If the conditions are not met by year-end 2027, Epsilon has a \$6.5 million cash option to retain the affected undeveloped leasehold.

The acquired assets include an operated position of 40,500 net acres producing 2.2 MBoepd in the Powder River Basin in Campbell and Converse County, Wyoming.

The transaction is subject to a shareholder vote; the associated proxy process will run in the interim period between signing and closing. If approved, the transaction is expected to close in the fourth quarter of 2025.

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

The following discussion is intended to assist in the understanding of trends and significant changes in our results of operations and the financial condition of Epsilon Energy Ltd. and its subsidiaries for the periods presented. The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto presented in this report, including the unaudited condensed consolidated financial statements as of June 30, 2025 and 2024 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, 2024. The following discussion contains “forward-looking statements” that reflect our future plans, estimates, beliefs, and expected performance. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors. See “Part II. Item 1A. Risk Factors” and “Forward-Looking Statements.”

Overview

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

At June 30, 2025 we held leasehold rights to 24,316 net acres. We have natural gas production from our non-operated wells in Pennsylvania, and oil, natural gas liquids, and natural gas production from our non-operated wells in Texas, New Mexico, Oklahoma, and Alberta, Canada.

At December 31, 2024 our total estimated net proved reserves were 69,401 MMcf of natural gas, 876,808 Bbls of NGLs, and 1,572,465 Bbls of oil and condensate.

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

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

Business Strategy

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

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

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

On February 26, 2024, Epsilon acquired a 25% interest in three producing wells and 3,620 gross undeveloped acres in Ector County, Texas from a private operator. The Company participated in the drilling and completion of 2 gross (0.5 net) wells during 2024 which were put on production in May 2024 and July 2024. Together with the transaction completed in 2023, the Company holds a 25% working interest in 16,592 gross acres and 7 producing wells in Texas. Total capital expenditures (net to Epsilon) through June 30, 2025 in the project (including undeveloped leasehold) are \$40 million.

On April 11, 2024, Epsilon acquired a 50% working interest in 14,243 gross undeveloped acres in Alberta, Canada. The Company participated in the drilling and completion of 2 gross (0.5 net) wells. One well was put on production in September 2024. One well was deemed non-commercial. Total capital expenditures (net to Epsilon) through June 30, 2025 in the project (including undeveloped leasehold) are \$3.5 million (pre-impairment).

In October 2024, Epsilon formed a joint venture with a private operator covering approximately 130,000 gross acres in Garrington and Harmattan areas in Alberta, Canada. The Company provided a \$7 million drilling carry in favor of the operator in exchange for a 25% working interest in the leasehold. To date, the Company participated in the drilling and completion of 2 gross (0.5 net) wells. Total capital expenditures (net to Epsilon) through June 30, 2025 are \$8.9 million (pre-impairment).

We continue to evaluate new opportunities in numerous onshore North American basins.

Three and six months ended June 30, 2025 Highlights

Operational Highlights

Marcellus Shale – Pennsylvania

- During the three months ended June 30, 2025, Epsilon's realized natural gas price was \$2.53 per Mcf, a 76% increase over the three months ended June 30, 2024. During the six months ended June 30, 2025, Epsilon's realized natural gas price was \$3.22 per Mcf, a 99% increase over the six months ended June 30, 2024.
- During the three months ended June 30, 2025, Epsilon's net revenue interest natural gas production was 2.7 Bcf, a 107% increase over the three months ended June 30, 2024. During the six months ended June 30, 2025, Epsilon's net revenue interest natural gas production was 5.3 Bcf, an 86% increase over the six months ended June 30, 2024.
- Gathered and delivered 11.2 Bcf gross (3.9 net to Epsilon's interest) during the three months ended June 30, 2025, or 123 MMcf/d through the Auburn Gas Gathering System. Gathered and delivered 22.8 Bcf gross (8.0 net to Epsilon's interest) during the six months ended June 30, 2025, or 126 MMcf/d through the Auburn Gas Gathering System.

Permian Basin – Texas and New Mexico

- During the three months ended June 30, 2025, Epsilon's realized price for all Permian Basin production was \$51.79 per Boe (88% liquids), a 4% decrease over the three months ended June 30, 2024. During the six months ended June 30, 2025, Epsilon's realized price for all Permian Basin production was \$53.46 per Boe (87% liquids), a 0.02% decrease over the six months ended June 30, 2024.
- Total net revenue interest production for the three months ended June 30, 2025, which included oil, natural gas liquids, and natural gas, was 42.9 Mboe compared to 65.9 Mboe during the same period in 2024, an 35% decrease. Total net revenue interest production for the six months ended June 30, 2025, which included oil, natural gas liquids, and natural gas, was 104.9 Mboe compared to 118.2 Mboe during the same period in 2024, an 11% decrease.
- At June 30, 2025, the Company had 1 gross (.25 net) well drilled and awaiting completion in Texas.

Anadarko, NW Stack Trend – Oklahoma

- During the three months ended June 30, 2025, Epsilon's realized price for all Oklahoma production was \$4.40 per Mcfe (60% natural gas), a 3% increase from the three months ended June 30, 2024. During the six months ended June 30, 2025, Epsilon's realized price for all Oklahoma production was \$4.85 per Mcfe (60% natural gas), a 10% increase from the six months ended June 30, 2024.
- Total net revenue interest production for the three months ended June 30, 2025 included natural gas, oil and other liquids and was 0.09 Bcfe, a 22% decrease from the same period in 2024. Total net revenue interest production for the six months ended June 30, 2025 included natural gas, oil and other liquids and was 0.2 Bcfe, a 10% decrease from the same period in 2024.

Western Canadian Sedimentary Basin—Alberta, Canada

- During the three months ended June 30, 2025, Epsilon's realized price for all Canada production was \$42.23 per Boe (75% liquids). During the six months ended June 30, 2025, Epsilon's realized price for all Canada production was \$43.48 per Boe (78% liquids). The Company had no Canada production in 2024.
- Total net revenue interest production for the three months ended June 30, 2025, which included oil, natural gas liquids, and natural gas, was 11.3 Mboe. Total net revenue interest production for the six months ended June 30, 2025, which included oil, natural gas liquids, and natural gas, was 13.1 Mboe.

Non-GAAP Financial Measures—Adjusted EBITDA

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

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that Adjusted EBITDA provides useful information regarding its ability to service debt and to fund capital expenditures. It further provides investors a helpful measure for comparing operating performance on a normalized or recurring basis with the performance of other companies, without giving effect to certain non-cash expenses and other items. This provides management, investors and analysts with comparative information for evaluating the Company in relation to other natural gas and oil companies providing corresponding non-U.S. GAAP financial measures or that have different financing and capital structures or tax rates. These non-U.S. GAAP financial measures should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with U.S. GAAP.

The table below sets forth a reconciliation of net income to Adjusted EBITDA for the three and six months ended June 30, 2025 and 2024, which is the most directly comparable measure of financial performance calculated under U.S. GAAP and should be reviewed carefully.

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Net income	\$ 1,551,461	\$ 815,660	\$ 5,567,495	\$ 2,322,556
Add Back:				
Interest expense (income), net	2,659	(100,184)	(429)	(357,696)
Income tax expense	1,837,687	459,016	3,507,881	513,066
Depreciation, depletion, amortization, and accretion	3,201,654	2,048,403	6,677,511	4,428,829
Impairment expense	2,670,000	—	2,676,669	—
Stock based compensation expense	385,838	313,589	771,676	635,158
(Gain) loss on derivative contracts net of cash received or paid on settlement	(2,267,203)	367,148	(1,220,076)	956,159
Foreign currency translation loss	14,021	—	24,310	570
Adjusted EBITDA	\$ 7,396,117	\$ 3,903,632	\$ 18,005,037	\$ 8,498,642

Results of Operations

Net Operating Revenues

For the six months ended June 30, 2025 revenues increased \$12.5 million, or 82%, to \$27.8 million from \$15.3 million during the same period of 2024.

Revenue and volume statistics for the three and six months ended June 30, 2025 and 2024 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Revenues				
Pennsylvania				
Natural gas revenue	\$ 6,702,131	\$ 1,843,548	\$ 17,030,025	\$ 4,601,656
Volume (MMcf)	2,653	1,285	5,290	2,841
Avg. Price (\$/Mcf)	\$ 2.53	\$ 1.44	\$ 3.22	\$ 1.62
Gathering system revenue (net of elimination)	\$ 1,845,005	\$ 1,444,448	\$ 3,737,355	\$ 3,380,146
Total PA Revenues	\$ 8,547,136	\$ 3,287,996	\$ 20,767,380	\$ 7,981,802
Permian Basin				
Natural gas revenue	\$ 17,189	\$ (2,757)	\$ 95,528	\$ 38,821
Volume (MMcf)	30	58	80	101
Avg. Price (\$/Mcf)	\$ 0.56	\$ (0.05)	\$ 1.19	\$ 0.38
Natural gas liquids revenue	\$ 41,837	\$ 281,770	\$ 326,798	\$ 541,684
Volume (MBOE)	3.2	14.5	15.3	26.0
Avg. Price (\$/Bbl)	\$ 13.06	\$ 19.38	\$ 21.36	\$ 20.85
Oil and condensate revenue	\$ 2,163,481	\$ 3,266,693	\$ 5,182,976	\$ 5,753,206
Volume (MBbl)	34.6	41.7	76.2	75.4
Avg. Price (\$/Bbl)	\$ 62.47	\$ 78.35	\$ 68.06	\$ 76.35
Total Permian Basin Revenues	\$ 2,222,507	\$ 3,545,706	\$ 5,605,302	\$ 6,333,711
Oklahoma				
Natural gas revenue	\$ 166,635	\$ 120,439	\$ 373,975	\$ 283,732
Volume (MMcf)	52	65	105	131
Avg. Price (\$/Mcf)	\$ 3.20	\$ 1.86	\$ 3.57	\$ 2.17
Natural gas liquids revenue	\$ 79,789	\$ 106,653	\$ 182,078	\$ 219,723
Volume (MBOE)	3.7	4.7	7.4	9.3
Avg. Price (\$/Bbl)	\$ 21.61	\$ 22.78	\$ 24.64	\$ 23.52
Oil and condensate revenue	\$ 133,446	\$ 247,024	\$ 291,383	\$ 475,593
Volume (MBbl)	2.0	3.1	4.3	6.1
Avg. Price (\$/Bbl)	\$ 66.00	\$ 79.66	\$ 68.29	\$ 78.38
Total OK Revenues	\$ 379,870	\$ 474,116	\$ 847,436	\$ 979,048
Canada				
Natural gas revenue	\$ 24,389	\$ —	\$ 24,389	\$ —
Volume (MMcf)	17	—	17	—
Avg. Price (\$/Mcf)	\$ 1.44	\$ —	\$ 1.44	\$ —
Natural gas liquids revenue	\$ 23,394	\$ —	\$ 23,394	\$ —
Volume (MBOE)	0.9	—	0.9	—
Avg. Price (\$/Bbl)	\$ 24.91	\$ —	\$ 24.91	\$ —
Oil and condensate revenue	\$ 427,437	\$ —	\$ 519,972	\$ —
Volume (MBbl)	7.5	—	9.3	—
Avg. Price (\$/Bbl)	\$ 57.11	\$ —	\$ 55.98	\$ —
Total Canada Revenues	\$ 475,220	\$ —	\$ 567,755	\$ —
Total Revenues	\$ 11,624,733	\$ 7,307,818	\$ 27,787,873	\$ 15,294,561

Upstream natural gas revenue for the six months ended June 30, 2025 increased by \$12.6 million, or 256%, over the same period in 2024. An increase of \$8.7 million was due to higher natural gas prices and an increase of \$3.9 million was a result of previously delayed turn in line wells coming online in Pennsylvania and the end of operator-elected well

shut-ins in Pennsylvania. Upstream natural gas revenue for the three months ended June 30, 2025 increased by \$5.0 million, or 252%, over the same period in 2024. An increase of \$3.1 million was due to higher natural gas prices and an increase of \$1.9 million was a result of previously delayed turn in line wells coming online in Pennsylvania and the end of operator-elected well shut-ins in Pennsylvania.

Upstream natural gas liquids revenue for the six months ended June 30, 2025 decreased by \$0.2 million, or 30%, over the same period in 2024. This decrease was mostly due to lower volumes in the Permian Basin as a result of processing disruptions at the Goldsmith plant in Texas in the second quarter. Upstream natural gas liquids revenue for the three months ended June 30, 2025 decreased by \$0.2 million, or 63%, over the same period in 2024. This decrease was mostly due to lower volumes in the Permian Basin as a result of the aforementioned processing disruption.

Upstream oil and condensate revenue for the six months ended June 30, 2025 decreased by \$0.2 million, or 4% over the same period in 2024. An increase of \$0.6 million was due to additional sales volumes from new wells drilled and acquired in the Permian Basin and Canada partially offset by a decrease of \$0.9 million due to lower prices. Upstream oil and condensate revenue for the three months ended June 30, 2025 decreased by \$0.8 million, or 22% over the same period in 2024. A decrease of \$0.05 million was due to constant sales volumes and a decrease of \$0.75 million was due to lower prices.

Gathering system revenue for the six months ended June 30, 2025 increased by \$0.4 million, or 11%, compared with the same period in 2024 as a result of crossflow gas being displaced with Anchor Shipper gas which is charged a higher gathering fee. Gathering system revenue for the three months ended June 30, 2025 increased by \$0.4 million, or 28%, compared with the same period in 2024 due to higher volumes and a higher percentage of Anchor Shipper gas. Revenues derived from transporting and compressing our production, which have been eliminated from gathering system revenues amounted to \$0.5 million and \$1.1 million, respectively, for the three and six months ended June 30, 2025, and \$0.3 million and \$0.6 million, respectively, for the three and six months ended June 30, 2024.

Operating Costs

The following table presents total cost and cost per unit of production (Mcf), including ad valorem, severance, and production taxes for the three and six months ended June 30, 2025 and 2024:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Lease operating costs (net of elimination)	\$ 2,462,785	\$ 1,649,867	\$ 5,218,683	\$ 3,418,329
Gathering system operating costs	613,795	649,967	1,166,446	1,202,537
	<u>\$ 3,076,580</u>	<u>\$ 2,299,834</u>	<u>\$ 6,385,129</u>	<u>\$ 4,620,866</u>
Upstream operating costs—Total \$/Mcf	0.80	0.92	\$ 0.85	\$ 0.91
Gathering system operating costs \$/Mcf	0.15	0.20	\$ 0.14	\$ 0.14

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 six months ended June 30, 2025 these costs increased by \$1.8 million, or 53%, over the same period in 2024. The increase is primarily due to higher volumes. For the three months ended June 30, 2025 these costs increased by \$0.8 million, or 49%, over the same period in 2024. The increase is primarily due to higher volumes.

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 three and six months ended June 30, 2025, gathering system operating costs were constant compared to the same period in 2024.

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Depletion, depreciation, amortization and accretion	\$ 3,201,654	\$ 2,048,403	\$ 6,677,511	\$ 4,428,829

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

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

Accretion expense is related to the asset retirement costs.

DD&A expense for the three and six months ended June 30, 2025 increased by \$1.2 million, or 56%, and \$2.2 million, or 51%, respectively, from the same period in 2024. This increase was a result of higher produced volumes in Pennsylvania and the Permian Basin.

Impairment

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Impairment	\$ 2,670,000	\$ —	\$ 2,676,669	\$ —

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 market forward prices, timing, methods and other assumptions consistent with historical periods. When indicators of impairment are present, GAAP requires that the Company first compare expected future undiscounted cash flows by asset group to their respective carrying values. If the carrying amount exceeds the estimated undiscounted future cash flows, a reduction of the carrying amount of the natural gas properties to their estimated fair value is required. Additionally, GAAP requires that if an exploratory well is determined not to have found proved reserves, the costs incurred, net of any salvage value, should be charged to expense.

For the three and six months ended June 30, 2025, the Company recorded an impairment of \$2.7 million for two wells drilled in Alberta, Canada. The impairment was a result of a decrease in estimated reserves due to early production coming in below expectations, cost overruns and lower forward commodity prices. For the three and six months ended June 30, 2024, there was no impairment.

General and Administrative (“G&A”)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
General and administrative	\$ 1,847,716	\$ 1,791,804	\$ 4,051,972	\$ 3,672,396

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 granted.

G&A expenses for the six months ended June 30, 2025 increased by \$0.4 million, or 10% from the same period in 2024. This was primarily due to higher compensation expenses. G&A expenses for the three months ended June 30, 2025 was constant from the same period in 2024.

Interest Income

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Interest income	\$ 17,247	\$ 108,943	\$ 32,546	\$ 375,215

Interest income for the three and six months ended June 30, 2025 decreased by \$0.1 million, or 84%, and \$0.3 million, or 91%, respectively, from the same period in 2024. This was primarily due to a reduction in the balance of cash and short term investments.

Interest Expense

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Interest expense	\$ 19,906	\$ 8,759	\$ 32,117	\$ 17,519

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

Interest expense during the three and six months ended June 30, 2025 and 2024 was relatively flat.

Gain (Loss) on Derivative Contracts

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Gain (Loss) on derivative contracts	\$ 2,573,863	\$ (94,891)	\$ 1,111,693	\$ (195,617)

For the six months ended June 30, 2025, Epsilon had NYMEX HH Natural Gas futures swaps, Tennessee Gas Pipeline Zone 4 basis swaps, NYMEX HH options, 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. The amounts recorded represent the fair value changes on our derivative instruments during the year.

During the three months ended June 30, 2025, we received net cash settlements of \$306,660. During the six months ended June 30, 2025, we paid net cash settlements of \$108,383. During the three and six months ended June 30, 2024, we received net cash settlements of \$272,257 and \$760,542, respectively.

For the three and six months ended June 30, 2025, realized gains on derivative contracts increased by \$2.7 million and \$1.3 million, respectively. This increase was primarily the result of a significant decrease in Henry Hub natural gas prices during the quarter.

Capital Resources and Liquidity

Cash Flow

The primary source of cash for Epsilon during the three and six months ended June 30, 2025 and 2024 was funds generated from operations. The primary uses of cash for the three and six months ended June 30, 2025 were the development of upstream properties and the distribution of dividends. The primary uses of cash for the three months ended

June 30, 2024 were the development of upstream properties, investment in U.S. Treasury Bills, the repurchase of shares of common stock, and the distribution of dividends.

At June 30, 2025, we had a working capital surplus of \$9.1 million, an increase of \$1.9 million from the \$7.2 million surplus at December 31, 2024. The Company anticipates its current cash balance, available borrowings, and cash flows from operations to be sufficient to meet its cash requirements for at least the next twelve months.

Six months ended June 30, 2025 compared to 2024

During the six months ended June 30, 2025, \$16.9 million was provided by the Company's operating activities, compared to \$9.1 million during the same period in 2024, representing an 87% increase. The increase was primarily due to higher produced volumes and realized prices in Pennsylvania.

The Company used \$10.7 million and \$9.5 million of cash for investing activities during the six months ended June 30, 2025 and 2024, respectively. During the six months ended June 30, 2025, the Company had net investments of \$10.7 million primarily in well costs and leasehold in Pennsylvania, Texas, and Canada. During the six months ended June 30, 2024, the Company had net investments of \$28.6 million in leasehold and well costs in Pennsylvania and Texas offset by net proceeds of \$19.1 million in U.S. Treasury Bills.

The Company used \$2.8 million and \$3.9 million of cash for financing activities during the six months ended June 30, 2025 and 2024, respectively. During the six months ended June 30, 2025, this was spent on dividend payments. During the six months ended June 30, 2024, this was spent on dividend payments and the repurchase of shares of common stock.

Credit Agreement

The Company closed a senior secured reserve based revolving credit facility on June 28, 2023 with Frost Bank as issuing bank and sole lender. The current borrowing base is \$45 million (redetermined as of February 10, 2025), supported by the Company's upstream assets in Pennsylvania and subject to semi-annual redeterminations with a maturity date of June 28, 2027. Interest will be charged at the Daily Simple SOFR rate plus a margin of 3.25%. The facility is secured by the assets of the Company's Epsilon Energy USA subsidiary (Borrower). There are currently no borrowings under the facility.

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

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

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

Repurchase Transactions

On February 12, 2025, Epsilon's board of directors (the "Board") authorized a new share repurchase program of up to 2,200,876 common shares, representing 10% of the current outstanding common shares of Epsilon, for an aggregate purchase price of not more than US \$13.0 million. The program commenced on February 12, 2025 and ends on February 11, 2026, unless the maximum amount of common shares is purchased before then or the Board approves earlier termination.

The previous share repurchase program commenced on March 19, 2024. During the year ended December 31, 2024, we repurchased 125,000 common shares and spent \$627,500 at an average price of \$5.00 per share (excluding commissions) under the plan. On February 12, 2025, the Board terminated and revoked authority under the program.

During the six months ended June 30, 2025, no shares were repurchased under the new or previous program.

Derivative Transactions

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

At June 30, 2025, Epsilon's outstanding natural gas and crude oil commodity contracts consisted of the following:

Derivative Type	Volume (MMbtu)	Weighted Average Price (\$/Mmbtu)			Fair Value of Asset June 30, 2025
		Swaps	Ceiling Price	Floor Price	
2025					
Henry Hub Nymex Swap	1,026,000	\$ 3.65	\$ —	\$ —	\$ (144,265)
Tennessee Z4 Basis swap	782,000	\$ —	\$ —	\$ —	\$ 351,769
Henry Hub Nymex Option - Put	122,000	\$ —	\$ —	\$ 4.00	\$ 48,138
Henry Hub Nymex Option - Call	—	\$ —	\$ 6.17	\$ —	\$ (15,996)
2026					
Henry Hub Nymex Swap	1,644,000	\$ 4.24	\$ —	\$ —	\$ 157,504
Henry Hub Nymex Option - Put	623,000	\$ —	\$ —	\$ 4.72	\$ 250,131
Henry Hub Nymex Option - Call	—	\$ —	\$ 4.79	\$ —	\$ (191,398)
2027					
Henry Hub Nymex Option - Put	180,000	\$ —	\$ —	\$ 4.00	\$ 105,184
Henry Hub Nymex Option - Call	—	\$ —	\$ 6.18	\$ —	\$ (92,002)
	<u>4,377,000</u>				<u>\$ 469,065</u>

Derivative Type	Volume (Bbl)	Weighted Average Price (\$/Bbl)	Fair Value June 30, 2025
2025			
Crude Oil NYMEX WTI CMA	39,600	\$ 69.19	\$ 263,462
	<u>39,600</u>		<u>\$ 263,462</u>

Contractual Obligations

The Company enters into commitments for capital expenditures in advance of the expenditures being made. As of June 30, 2025, the Company has commitments of \$1.9 million for capital expenditures and has undiscounted long term commitments of \$15.7 million for asset retirement obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Gathering System Revenue Risk

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

Interest Rate Risk

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

At June 30, 2025 and 2024, the outstanding principal balance under the credit agreement was nil.

Derivative Contracts

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Our chief executive officer and chief financial officer have concluded that our current disclosure controls and procedures were effective as of June 30, 2025 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended June 30, 2025 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2024.

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

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

For the six months ended June 30, 2025, no shares had been repurchased.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. —EXHIBITS

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

SIGNATURES

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

Epsilon Energy Ltd.
(Registrant)

Date: August 13, 2025

By: /s/ J. Andrew Williamson

J. Andrew Williamson
Chief Financial Officer