Risk Factors Comparison 2024-03-21 to 2023-03-24 Form: 10-K

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You should carefully consider the risks and uncertainties described below, together with all of the other information and risks included in, or incorporated by reference into this report, including our consolidated financial statements and the related notes thereto, before making any financial decisions relating to Epsilon. Risks Related to Oil and Natural Gas Reserves Our business is dependent on oil and natural gas prices, and any fluctuations or decreases in such prices could adversely affect our results of operations and financial condition. Revenues, profitability, liquidity, ability to access capital and future growth prospects are highly dependent on the prices received for oil and natural gas. The prices of these commodities are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile, and this volatility may continue in the future. The volatility of the energy markets generally ~~make~~ **makes** it extremely difficult to predict future oil and natural gas price movements. Also, prices for ~~crude~~ oil and prices for natural gas do not necessarily move in tandem. Declines in oil or natural gas prices would not only reduce revenue ~~,~~ but could also reduce the amount of oil and natural gas that can be economically produced and therefore potentially lower natural gas and oil reserve quantities. If the oil and natural gas industry continues to experience low prices, we may, among other things, be unable to meet all ~~of~~ our financial obligations or make planned expenditures. Substantial and extended declines in oil and natural gas prices may result in impairments of proved natural gas and oil properties or undeveloped acreage and may materially and adversely affect our future business, financial condition, cash flows, results of operations, liquidity or ability to finance planned capital expenditures. To the extent commodity prices received from production are insufficient to fund planned capital expenditures, spending will be required to be reduced, assets could be sold or funds may be borrowed to fund any such shortfall. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves, the failure of which could result in under- use of capital and in losses. Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our long- term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that we may have at any particular time and the production from those reserves will decline over time as those reserves are exploited. A future increase in our reserves will depend not only on our ability to explore and develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. We cannot assure you that we will be able to locate and continue to locate satisfactory properties for acquisition or participation. Moreover, if we do identify such acquisitions or participations, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. We cannot assure you that we will discover or acquire further commercial quantities of oil and natural gas. Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut- ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, we are not fully insured against all of these risks, nor are all such risks insurable. Although we maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event we could incur significant costs that could have a material adverse effect upon our financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations, and the loss of the ability to use hydraulic fracturing (see risk factor regarding government legislation). Losses resulting from the occurrence of any of these risks could have a material adverse effect on our future results of operations, liquidity and financial condition. Our reserve estimates may be inaccurate, and future net cash flows as well as our ability to replace any reserves are uncertain. There are numerous uncertainties inherent in estimating quantities of oil and natural gas reserves and cash flows to be derived ~~thereof~~ **therefrom** , including many factors beyond our control. The reserve and associated cash flow information set forth herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows ~~thereof~~ **therefrom** are based upon a number of variable factors and assumptions such as historical oil and natural gas prices, production levels, capital expenditures, operating and development costs, the effects of regulation, the accuracy and reliability of the underlying engineering and geologic data, and the availability of funds; all of which may vary from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected ~~thereof~~ **therefrom** and prepared by different engineers, or by the same engineers at different times, may vary. Our actual production, revenues, taxes and development and operating expenditures with respect to our reserves will vary from estimates thereof and such variations could be material. **17** In accordance with applicable securities laws, the technical report on our oil and natural gas reserves prepared by DeGolyer and MacNaughton, independent petroleum consultants, as of December 31, **2023 and** 2022 ~~and 2021~~, or the DeGolyer Reserve Report, used SEC guideline prices and cost estimates in calculating net cash flows from oil and natural gas reserve quantities included within the report. Actual future net revenue will be affected by other factors such as actual commodity prices, production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Actual production and revenues derived ~~thereof~~ **therefrom** will vary from the estimates contained in the DeGolyer Reserve Report, and such variations could be material. The DeGolyer Reserve Report is based in part on the assumed success of activities that we intend to undertake in future years. The oil and natural gas reserves and estimated cash flows to be derived therefrom contained in the DeGolyer Reserve Report will be reduced to the extent that such activities do not achieve the level of success assumed in the DeGolyer Reserve Report. Our future oil and natural gas reserves, production, and derived cash flows are highly dependent on our successfully acquiring or discovering and developing new reserves. Without the continual addition of new reserves, any of our existing reserves and their production will decline as such reserves are exploited. A future increase in our reserves will depend not only on our ability to develop any properties we may have from time to time, but also on our ability to select and acquire suitable producing properties or prospects. There can be no assurance that our future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas. ~~18~~ Risks Related to Stage of Development, Structure and Capital ResourcesIf there is a sustained economic downturn or recession in the United States or globally, natural gas and oil prices may fall and may become and remain depressed for a long period of time, which may adversely affect our results of operations. We may be unable to obtain additional capital required to implement our business plan, which could restrict our ability to grow. Operations could also be adversely affected by general economic downturns or limitations on spending. An economic downturn and uncertainty may have a negative impact on our business. During **2023 and** 2022 ~~and 2021~~, there was tremendous volatility in prices and available financing for oil and gas projects. There can be no assurance that we will be able to access capital markets to provide funding for future operations that would require additional capital beyond our current existing available capital on terms acceptable to us. Substantial capital, which may not be available to us in the future, is required to replace and grow reserves. We anticipate making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If our revenues or reserves decline, we may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements, or for other corporate purposes. If debt or equity financing is available, there is no assurance that it will be on terms acceptable to us. Moreover, future activities may require us to alter our capitalization significantly. Additional capital raised through the issuance of common shares or other securities convertible into common shares may result in a change of control of us and dilution to shareholders. Our inability to access sufficient capital for our operations could have a material adverse effect on our financial condition and results of operations. Our cash flow from our reserves may not be sufficient to fund our ongoing activities at all times. From time to time, we may require additional financing in order to carry out our oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause us to forfeit our interest in certain properties, miss certain acquisition opportunities, or reduce or terminate our operations. If our revenues from our reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect our ability to expend the necessary capital to replace our reserves or to maintain our production. If our cash flow from operations is not sufficient to satisfy our capital expenditure requirements, there can be no assurance that additional debt, equity financing or the proceeds from the sale of a portion or all of our interest in one or more projects will be available to meet these requirements or available on terms acceptable to us. **18** The borrowing base under our credit facility may be reduced in light of commodity price declines, which could limit us in the future. Lower commodity volumes and prices may reduce the amount of our borrowing base under our credit agreement, which is determined at the discretion of our lenders based on the collateral value of our proved reserves that have been mortgaged to the lenders, and is subject to twice yearly redeterminations, as well as special redeterminations described in the credit agreement. Upon a redetermination, if borrowings in excess of the revised borrowing capacity were outstanding, we could be forced to immediately repay a portion of the debt outstanding under our credit agreement. In addition, we may be unable to access the equity or debt capital markets to meet our obligations, including any such debt repayment obligations. The terms of our revolving credit facility may restrict our operations, particularly our ability to respond to changes or to take certain actions. The contract that governs our revolving credit facility contains covenants that impose operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long- term best interest, including restrictions on our ability, subject to satisfaction of certain conditions, to incur additional indebtedness, sell assets, enter into transactions with affiliates, and enter into or refrain from entering into hedging contracts. ~~19~~ In addition, the restrictive covenants in our revolving credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet them. A breach of the covenants or restrictions under the contract that governs our revolving credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt. In the event our lenders accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness. Depending on forces outside our control, we may need to allocate our available capital in ways that we did not anticipate. Because of the volatile nature of the oil and natural gas industry, we regularly review our budgets in light of past results and future opportunities that may become available to us. In addition, our ability to carry out operations may depend upon the decisions of other working interest owners in our properties. Accordingly, while we anticipate that we will have the ability to spend the funds available to us, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent. We may issue debt to acquire assets or for working capital. From time to time, we may enter into transactions to acquire assets or shares of other companies. These transactions may be financed partially or wholly with debt, which may increase our debt levels. Depending on future exploration and development plans, we may require additional equity and / or debt financing that may not be available or, if available, may not be available on favorable terms. Neither our articles of incorporation nor our by- laws limit the amount of indebtedness that we may incur. The level of our indebtedness, from time to time, could impair our ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. Our potential lenders will likely require security over substantially all of our assets. If we become unable to pay our debt service charges or otherwise commit an event of default, such as bankruptcy, these lenders may foreclose on or sell our properties. The proceeds of any such sale would be applied to satisfy amounts owed to our lenders and other creditors, and only the remainder, if any, would be available to us. Future equity transactions could result in dilution to existing stockholders. We may make future acquisitions or enter into financing or other transactions involving the issuance of securities ~~or the sale of a portion or all of an interest in one or more of our projects~~ , ~~all of~~ which may be dilutive to existing security holders. **19** Competition in the natural gas and oil industry is intense, which may hinder our ability **, and the ability of our third- party operating partners,** to contract for drilling equipment, and we may not be able to control the scheduling and activities of contracted drilling equipment. Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to us **and our third- party operating partners** and may delay exploration and development activities. Past industry conditions have led to periods of extreme shortages of drilling equipment in certain areas of the United States. On the oil and natural gas properties that we do not operate, we will be dependent on such operators for the timing of activities related to such properties and may be largely unable to direct or control the activities of the operators. Results of our drilling are uncertain, and we may not be able to generate high returns. Our operations involve utilizing the latest drilling and completion techniques in order to maximize cumulative recoveries and generate high returns. If drilling results are less than anticipated or we are unable to execute our drilling program because of capital constraints, lease expirations, access to gathering systems and limited takeaway capacity or otherwise, or if crude oil and natural gas prices decline, the return on our investment in these areas may not be as attractive ~~20~~ as anticipated. Further, less than anticipated results in developments could incur material write- downs of our oil and natural gas properties and the value of undeveloped acreage could decline in the future. Extensive government legislation and regulatory initiatives could increase costs and impose burdensome operating restrictions that may cause operational delays. Hydraulic fracturing, which involves the injection of water, sand and chemicals under pressure into deep rock formations to stimulate ~~crude~~ oil or natural gas production, is often used in the completion of unconventional ~~crude~~ oil and natural gas wells. Currently, hydraulic fracturing is primarily regulated in the United States at the state level, which generally focuses on regulation of well design, pressure testing, and other operating practices. However, some states and local jurisdictions across the United States, such as the State of New York, have begun adopting more restrictive regulation. Some members of the U. S. Congress and the EPA are studying environmental contamination related to hydraulic fracturing and the impact of fracturing on public health. In March 2015, the U. S. Congress introduced legislation to regulate hydraulic fracturing and require disclosure of the chemicals used in the hydraulic fracturing process, and may implement more stringent regulations in the future. Additionally, some states, such as the State of New York, have adopted, and others are considering, regulations that could restrict hydraulic fracturing. The ultimate status of such regulation is currently unknown. Any federal or state legislative or regulatory changes with respect to hydraulic fracturing could cause us to incur substantial compliance costs or result in operational delays, and the consequences of any failure to comply by us or our third- party operating partners could have a material adverse effect on our financial condition and results of operations. Our corporate structure could result in incremental tax burden in certain circumstances. Epsilon Energy Ltd. is an Alberta company. Epsilon Energy USA Inc. (Ohio corporation) may be a U. S. real property holding corporation (a " USRPHC ") for U. S. federal income tax purposes if it is determined, at any time, that the fair market value of its assets that consist of " United States real property interests, " as defined in the Internal Revenue Code, and applicable Treasury regulations, constitute at least 50 % of the combined fair market value of our real ~~estate~~ **property** interests and other business assets. If Epsilon Energy USA Inc. were a USRPHC, then Epsilon Energy Ltd.' s investment in Epsilon Energy USA Inc. would be a United States Real Property Interest (USRPI) for US federal tax purposes. As a result, the Foreign Investment in Real Property Tax Act, or " FIRPTA, " would require Epsilon Energy Ltd. to pay U. S. federal income tax at the corporate income tax rates on capital gain distributions made by Epsilon Energy USA Inc. to Epsilon Energy Ltd. Distributions made out of earnings and profits are not expected to be subject to the FIRPTA tax but would be subject to U. S. withholding tax. **20** Our operations are currently geographically concentrated and therefore subject to regional economic, regulatory and capacity risks. Approximately ~~91~~ **77** % and ~~93~~ **88** % of our ~~production~~ **revenue** during fiscal **years 2023 and** 2022 ~~and 2021~~ , respectively **,** was derived from ~~our properties~~ **natural gas production and gathering system revenues** in **the state of Pennsylvania. As a result of prolonged weak pricing in Zone 4 of the Tennessee Gas Pipeline and, therefore, a reduced pace of development, Epsilon' s management is striving to allocate capital to additional upstream opportunities outside of** the Marcellus Shale ~~region~~ **. More specifically, the Company has allocated capital to the Permian Basin through its investments in New Mexico and Texas. Epsilon' s management expects to continue to seek opportunities outside** of ~~Pennsylvania~~ **the Marcellus Shale in order to provide the Company the flexibility to respond to market conditions by allocating capital across multiple basins and commodities** . As a result of this geographic concentration, we may be disproportionately exposed to the effect of regional supply and demand factors, delays or interruptions of production from wells in this area caused by governmental regulation, processing or transportation capacity constraints, market limitations, weather events or interruption of the processing or transportation of crude oil or natural gas ~~. Additionally, we may be exposed to additional risks, such as changes in field- wide~~

~~rules and regulations that could cause us to permanently or temporarily shut- in many or all of our wells within the Marcellus Shale~~ . Delays in business operations may reduce cash flows and subject us to credit risks. In addition to the usual delays in payments by purchasers of oil and natural gas to us or to the operators, and the delays by operators in remitting payment to us, payments from these parties may be delayed by restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, adjustment for prior periods, or recovery by the operator of expenses incurred in the operation of the properties. In addition, the transition of one operator to another as the result of an operator being bought or sold could cause additional operational delays beyond our control. Any of these delays could reduce the amount of cash flow available for our business in a given period and expose us to additional third- party credit risks. ~~21~~ We depend on the successful acquisition, exploration and development of oil and natural gas properties to develop any future reserves and grow production and revenue in the future, and assessments of our assets may be subject to uncertainty. Acquisitions of oil and natural gas companies and oil and natural gas assets are typically based on engineering and economic assessments made by independent engineers and our own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond our control. In particular, the prices of, and markets for, oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated. Initial assessments of acquisitions may be based on analysis by our internal engineers or reports by a firm of independent engineers that are not the same as the firm that we use for our year- end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm that we use. We depend on third- party operators and our key personnel, and competition for experienced ~~,~~ technical personnel may negatively affect our operations. Approximately 99 % of our oil and natural gas properties are operated by third- party operators. As such, we will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. The objectives and strategy of those operators may not always be consistent with ours, and we have a limited ability to exercise influence over, and control the risks associated with, operations of these properties. The failure of an operator of our wells to adequately perform operations, an operator' s breach of the applicable agreements or an operator' s failure to act in ways that are in our best interests could reduce our production and revenues from our assets or could increase costs or create liability for the operator' s failure to properly maintain the well and facilities and to adhere to applicable safety and environmental standards. In addition to the operator, our success will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on us. We do not have key- person insurance in effect **21** for management. The contributions of these individuals to our immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense, and there can be no assurance that we will be able to continue to attract and retain all personnel necessary for the development and operation of our business. Certain of our directors ~~and officers~~ are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Conflicts Committee of our board of directors. Our leasehold interests are subject to termination or expiration under certain conditions. Our properties are held in the form of leases and working interests in leases, collectively referred to as " leasehold interests. " If we or our joint venture partner fails to meet the specific requirement (s) of a particular leasehold interest, the leasehold interest may terminate or expire. There can be no assurance that any of the obligations required to maintain each leasehold interest will be met. The termination or expiration of a particular leasehold interest may have a material adverse effect on our financial condition and results of operations. We may incur losses as a result of title deficiencies. Although title reviews will be done according to industry standards before the purchase of most oil and natural gas- producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat our claim, which could result in a reduction in our ownership interest or of the revenue that we receive. ~~22~~ We may be exposed to third- party credit risk, and defaults by third parties could adversely affect us. We are or may be exposed to third- party credit risk through our contractual arrangements with current or future joint venture partners, marketers of our petroleum and natural gas production, derivative counterparties and other parties. In the event such entities fail to meet their contractual obligations to us, such failures could have a material adverse effect on us and our cash flow from operations. We may not be insured against all of the operating risks to which we are exposed. Our involvement in the exploration for and development of oil and natural gas properties may result in our becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although before drilling we plan to obtain insurance in accordance with industry standards to address certain of these risks, such insurance may not be available, be price- prohibitive, or contain limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable, or, in certain circumstances, we may elect not to obtain insurance to deal with specific risks because of the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to us. The occurrence of a significant event that we are not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position and our results of operations. Risks Related to Commodity Prices, Hedging and MarketingNatural gas and oil prices fluctuate widely, and low prices for an extended period would likely have a material adverse ~~impact~~ **effect** on our business. Our revenues, profitability and future growth and the carrying value of our oil and natural gas properties are substantially dependent on prevailing prices of oil and natural gas. Our ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and natural gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond our control. These factors include economic conditions in the United States, the Middle East and elsewhere in the world; the actions of OPEC; governmental regulation; political stability in the Middle East and elsewhere; the foreign supply of oil and natural gas; the price of foreign imports; and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the carrying value of our proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. There can be no assurance that recent commodity prices can be sustained over the life of our operations. There **22** is substantial risk that commodity prices may decline in the future, although it is not possible to predict the time or extent of such decline. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects. In addition, bank borrowings that may be available to us are in part determined by our borrowing base. A sustained material decline in prices from historical average prices could reduce our borrowing base, thereby reducing the bank credit available to us, which could require that a portion, or all, of our bank debt be repaid. Hedging transactions may limit our potential gains or cause us to lose money. From time to time, we may enter into agreements to receive fixed prices on our oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, we will not benefit from such increases. We are exposed to risks of loss in the event of nonperformance by our counterparties to our hedging arrangements. Some of our counterparties may be highly leveraged and subject to their own operating and regulatory risks. Despite our analysis, we may experience financial losses in our dealings with these and other parties with whom we enter into ~~23~~ transactions as a normal part of our business activities. Any nonpayment or nonperformance by our counterparties could have a material adverse ~~impact~~ **effect** on our business, financial condition and results of operations. Additionally, we may, due to circumstances beyond our control, be put in a position of over- hedging. If this occurs, our revenue could be adversely affected due to the necessity of buying gas at the current market rate in order to fulfill hedging sales obligations. Market conditions or operation impediments may hinder our access to natural gas and oil markets or delay our production. The marketability and price of oil and natural gas that we may produce, acquire or discover will be affected by numerous factors beyond our control. Our ability to market our natural gas may depend upon our ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets. This risk is somewhat mitigated by our 35 % ownership of a gathering system in the Marcellus Shale in Pennsylvania. We may also be affected by extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, and many other aspects of the oil and natural gas business. Investor sentiment towards climate change, fossil fuels, and sustainability could adversely affect our business and our share price. There have been efforts in recent years aimed at the investment community, including investment advisors, sovereign wealth funds, public pension funds, universities and other groups, to promote the divestment of shares of energy companies, as well as to pressure lenders and other financial services companies to limit or curtail activities with energy companies. If these efforts are successful, our stock price and our ability to access capital markets may be negatively impacted. Members of the investment community are also increasing their focus on sustainability practices, including practices related to GHGs and climate change, in the energy industry. As a result, we may face increasing pressure regarding our sustainability disclosures and practices. Additionally, members of the investment community may screen companies such as ours for sustainability performance before investing in our shares. **23** We are subject to complex laws and regulations, including environmental regulations that can have a material adverse effect on the cost, manner and feasibility of doing business. Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Our operations may require licenses and permits from various governmental authorities. There can be no assurance that we will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at our projects. It is not expected that any of these controls or regulations will affect our operations in a manner materially different than they would affect other oil and natural gas companies of similar size. Environmental and health and safety risks may adversely affect our business. All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, state and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills and releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. Although we believe that we are in material compliance with current applicable environmental regulations, we cannot assure you that environmental laws will not result in a curtailment ~~24~~ of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, results of operations or prospects. We must also conduct our operations in accordance with various laws and regulations concerning occupational safety and health. Currently, we do not foresee expending material amounts to comply with these occupational safety and health laws and regulations. However, since such laws and regulations are frequently changed, we are unable to predict the future effect of these laws and regulations **. Risks Related to CybersecurityWe may be subject to interruptions or failures in our information technology systems. We rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. Any of these systems are susceptible to outages due to fire, floods, power loss, telecommunications failures, usage errors by employees, computer viruses, cyberattacks or other security**

breaches or similar events. The failure of any of our information technology systems may cause disruptions in our operations, which could adversely affect our revenue and profitability. We are subject to cybersecurity risks. A cyber incident could occur and result in information theft, data corruption, operational disruption and / or financial loss. We depend on information technology systems that we manage, and others that are managed by third- party service and equipment providers, to conduct our day- to- day operations, including critical systems, and these systems are subject to risks associated with cyber incidents or attacks, especially originating from countries such as China, Russia, Iran, and North Korea as broadly reported in the media. Our technology systems and networks, and those of our vendors, suppliers and other business partners, may become the target of cyberattacks or information security breaches. A cyber incident could negatively impact the Company in a number of ways, including but not limited to: (i) remediation costs, such as liability for stolen assets or information and repairs of system damage; (ii) increased cybersecurity protection costs, which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third- party experts and consultants; (iii) lost revenue resulting from downtime, operational disruptions, the unauthorized use of proprietary information or the failure to retain or attract customers following an attack; (iv) litigation and legal risks, including regulatory actions by state and federal governmental authorities and non- U. S. authorities and related investigation costs; (v) increased insurance premiums; (vi) reputational 24 damage that adversely affects customer or investor confidence; (vii) the loss, theft, corruption or unauthorized release of intellectual property, proprietary information, customer and vendor data or other critical data and (viii) damage to the Company' s competitiveness, stock price, and long- term stockholder value. Certain cyber incidents, such as surveillance, may remain undetected for an extended period of time. As the sophistication of cyber incidents continues to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. Our insurance coverage for cyberattacks may not be sufficient to cover all the losses we may experience as a result of such cyberattacks . Risks Related to Internal ControlsFor as long as we are an " emerging growth company, " we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to some other public companies. As an " emerging growth company " as defined in the JOBS Act, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. We ~~are~~ **will cease being** an emerging growth company **not later than** ~~until the earliest of: ● the last day of the fiscal year during which we have total annual gross revenues of $ 1. 235 billion or more; ● the last day of the fiscal year following the fifth anniversary of the date of our first issuance of common equity securities under an effective Securities Act registration statement (~~ December 31, **2024** ~~2019); ● the date on which we have, during the previous 3- year period, issued more than $ 1 billion in non- convertible debt; or ● the date on which we are deemed a " large accelerated filer " as defined under the federal securities laws~~ . For so long as we remain an " emerging growth company, " we will not be required to: ● have an auditor report on our internal control over financial reporting pursuant to the Sarbanes- Oxley Act of 2002 **(provided that this exemption will continue to apply for so long as we are a " non- accelerated filer ")** ; ● comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor' s report providing additional information about the audit and the financial statements (auditor discussion and analysis); ● submit certain executive compensation matters to shareholder approval (requiring a non- binding shareholder vote to approve golden parachute arrangements in connection with mergers and certain other business combinations, and advisory votes on executive compensation pursuant to the " say on frequency " and " say on pay " provisions under the Dodd- Frank Wall Street Reform and Consumer Protection Act of 2010; and ● include detailed compensation discussion and analysis in our filings under the Securities Exchange Act of 1934 (the " Exchange Act ") and instead may provide a reduced level of disclosure concerning executive compensation. In addition, the JOBS Act provides that an " emerging growth company " can take advantage of the extended transition period for complying with new or revised accounting standards. We have elected to take advantage of the extended transition period, which allows us to delay the adoption of new or revised accounting standards until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to public companies that comply with new or revised accounting standards. Because of these exemptions, some investors may find our common shares less attractive, which may result in a less active trading market for our common shares, and our shares price may be more volatile. ~~25~~ If we fail to establish and maintain proper disclosure or internal controls, our ability to produce accurate financial statements and supplemental information or comply with applicable regulations could be impaired. As we grow, we may be subject to growth- related risks including capacity constraints and pressure on our internal systems and controls. Our ability to manage growth effectively will require us to continue to implement and improve our operational and financial systems and to train and manage our employee base. We must maintain effective disclosure controls and procedures. We must also maintain effective internal controls over financial reporting or, at the appropriate time, our independent auditors will be unwilling or unable to provide us with an unqualified report on the effectiveness of our internal controls over financial reporting as required by Section 404 (b) of **25** the Sarbanes- Oxley Act, once we become subject to those requirements. If we fail to maintain effective controls, investors may lose confidence in our operating results, the price of our common shares could decline and we may be subject to litigation or regulatory enforcement actions. Risks Related to Gathering SystemBecause of the natural decline in production from existing wells, our success depends on the Anchor Shippers' economically developing the remaining Marcellus Shale reserves. Our natural gas gathering system is dependent upon the level of production from natural gas wells, from which production will naturally decline over time. In order to maintain or increase throughput levels on our gathering system and compression facility, we must continually develop reserves within the Auburn GGS boundary or obtain new supplies external to the Auburn GGS boundary. Developing reserves within the system boundary is the priority as external natural gas volumes have a contractual gathering rate that is 25 % of the Anchor Shipper rate. The primary factors affecting our ability to obtain new supplies of natural gas is the level of successful drilling activity from the Anchor Shippers, of which Epsilon is one, as well as our ability to compete for volumes from successful new wells drilled by third parties proximate to our system. If we are not able to obtain new supplies of natural gas to replace the natural decline in volumes from existing wells, throughput on our pipelines and the utilization rates of our compression facility would decline, which could have an adverse effect on our business, results of operations, financial position and cash flows. Although gross throughput at the Auburn CF has declined from 2018- ~~2022~~ **2023** , the share of Anchor Shipper gas has increased. The gathering rate on the Auburn GGS is subject to a cost- of- service model which could result in a non- competitive gathering rate and reduced throughput. The gathering rate charged by the Auburn GGS is determined by a cost- of- service model whereby the Anchor Shippers in the system, of which Epsilon is one, dedicate acreage and reserves to the gas gathering system in exchange for the Auburn GGS owners agreeing to a contractual rate of return on invested capital. The term of this arrangement is 15 years commencing in 2012 and expiring in 2026 with an 18 % rate of return. Each year, the Auburn GGS historical and forecast throughput, revenue, operating expenses and capital expenditures are entered into the cost- of- service model. The model then computes the new gathering rate that will yield the contractual rate of return to the Auburn GGS owners. In January 2027, the Auburn GGS will transition to a fixed gathering rate. Under the cost- of- service model, if total throughput on the system is lower than forecasted in the prior year, the gathering rate will increase. The 2022 model forecasts 276 Bcf throughput from 2022- 2026 (approximately 69 % of current capacity at the 550 psig design suction pressure) which resulted in a $ 0. 40 gathering rate. If the gathering rate on the Auburn GGS increases, it could result in reduced or deferred development in the Auburn GGS. In one unlikely scenario, if no further development activity beyond work in progress occurs in the Auburn GGS, forecast throughput from 2022- 2026 is expected to decline to 205 Bcf (approximately 52 % of current capacity at the 550 psig design suction pressure) resulting in a still acceptable $ 0. 62 gathering rate. Although the Anchor Shippers have dedicated their reserves to the Auburn GGS, they are under no obligation to develop the reserves. ~~26~~ Because of the large supply of gas, and limited availability of transportation out of the Marcellus Shale area, our gas is subject to a price differential. Differential is an energy industry term that refers to the discount or premium received for the sale of a petroleum product at a specific location relative to a nationally recognized sales hub. In the Marcellus Shale, natural gas is significantly discounted to Henry Hub **pricing** and the size of the differential can be volatile. Many factors influence the size and duration of differentials including local supply / demand imbalances, seasonal fluctuations in demand, transportation availability and cost, as well as the regulatory environment as it pertains to constructing new transportation pipelines. In Northeast Pennsylvania, negative differentials have persisted for many years due to rapid increases in supply as a result of advances in well completion techniques. Despite substantial increases in local demand for natural gas coupled with pipeline expansions, optimizations, and new pipelines that have been brought into service, the natural gas differential in Northeast Pennsylvania remains significant. There is no guarantee that future demand or pipeline transportation projects will eliminate this differential, and it will therefore remain a significant risk to demand for transportation service on the Auburn GGS, and therefore Epsilon' s revenues and cash flows. **26** We compete with other operators in our gas gathering energy businesses. Although the Anchor Shippers have dedicated their acreage and reserves to the Auburn GGS, the Auburn GGS may not be chosen by other producers in these areas to gather and compress the natural gas extracted. We compete with other companies, including co- owners of the Auburn GGS who operate other systems, for any such production from non- Anchor Shippers on the basis of many factors, including but not limited to geographic proximity to the production, costs of connection, available capacity, rates and access to markets. Competition in natural gas gathering is based in large part on existing assets, reputation, efficiency, system reliability, gathering system capacity and pricing arrangements. Our key competitors in the natural gas gathering business include independent gas gatherers and major integrated energy companies. Alternate gathering facilities are available to non- Anchor Shippers we serve, and those producers may also elect to construct proprietary gas gathering systems. A significant increase in competition in the gas gathering industry could have a material adverse effect on our financial position, results of operations and cash flows. Several of our assets **that** have been in service for many years may require significant expenditures to maintain them. As a result, our maintenance or repair costs may increase in the future. Our gathering lines and compression facility are generally long- lived assets, and many of such assets have been in service for many years. The age and condition of our assets could result in increased maintenance or repair expenditures in the future. Any significant increase in these expenditures could adversely affect our gathering rate and competitive position. We are exposed to the credit risk of our customers and counterparties, and our credit risk management will not be able to completely eliminate such risk. We are subject to the risk of loss resulting from nonpayment and / or nonperformance by our customers and counterparties in the ordinary course of our business. Generally, our customers are rated investment grade, are otherwise considered creditworthy, or may be required to make prepayments or provide security to satisfy credit concerns. However, our credit procedures and policies cannot completely eliminate customer and counterparty credit risk. Our customers and counterparties include natural gas producers whose creditworthiness may be suddenly and disparately impacted by, among other factors, commodity price volatility, deteriorating energy market conditions, and public and regulatory opposition to energy producing activities. In a low commodity price environment certain of our customers could be negatively impacted, causing them significant economic stress including, in some cases, to file for bankruptcy protection or to renegotiate contracts. To the extent one or more of our key customers commences bankruptcy proceedings, our contracts with the customers may be subject to rejection under applicable provisions of the United States Bankruptcy Code, or may be renegotiated. Further, during any such bankruptcy proceeding, prior to assumption, rejection or renegotiation of such contracts, the bankruptcy court may temporarily authorize the payment of value for our services less than contractually required, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. If we fail to adequately assess the creditworthiness of existing or future customers and counterparties or otherwise do not take or are unable to take sufficient mitigating actions, including obtaining sufficient collateral, deterioration in their creditworthiness, and any resulting increase in nonpayment and / or nonperformance by them could cause us to write ~~27~~ down or write off accounts receivable. Such write- downs or write- offs could negatively affect our operating results in the periods in which they occur, and, if significant, could have a material adverse effect on our business, results of operations, cash flows, and financial condition. Prices for natural gas in Northeast Pennsylvania are volatile and are subject to significant discounts from pricing at Henry Hub. This discount and volatility has and could continue to adversely affect our financial results, cash flows, access to capital and ability to maintain our existing businesses. Our revenues, operating results, and future rate of growth depend primarily upon the price of natural gas in Northeast Pennsylvania which is currently volatile and significantly discounted to natural gas at Henry Hub due to insufficient interstate pipeline capacity out of the region. This volatility and discount has adversely impacted reserve development in the past, and could do so again in the future. A slowing pace ~~relative to the cost~~ of ~~service model forecast~~ or complete halt to the development of Anchor Shipper reserves will impact our financial results, cash flows, and access to capital. **27** ~~The financial condition of our natural gas gathering businesses is dependent on the continued availability of natural gas supplies and demand for those supplies in the markets we serve. Our ability to expand our natural gas gathering business primarily depends on the level of drilling and production by the Anchor Shippers. Production from existing wells with access to our gathering systems will naturally decline over time. The amount of natural gas reserves underlying these existing wells may also be less than anticipated, and the rate at which production from these reserves declines may be greater than anticipated. We do not obtain independent evaluations of the third- party natural gas reserves flowing into our systems and compression facilities. Demand for our services is dependent on the demand for gas in the markets we serve. Alternative fuel sources such as electricity, coal, fuel oils, or nuclear energy could reduce demand for natural gas in our markets and have an adverse effect on our business. A failure to obtain access to sufficient natural gas supplies or a reduction in demand for our services in the markets we serve could result in impairments of our assets and have a material adverse effect on our business, financial condition, results of operations, and cash flows. Our operations are subject to operational hazards and unforeseen interruptions. There are operational risks associated with gathering and compression of natural gas, including: ● Hurricanes, tornadoes, floods, extreme weather conditions and other natural disasters; ● Aging infrastructure and mechanical problems; ● Damages to pipelines and pipeline blockages or other pipeline interruptions; ● Uncontrolled releases of natural gas, brine, or industrial chemicals; ● Operator error; ● Damage caused by third- party activity, such as operation of construction equipment; ● Pollution and other environmental risks; ● Fires, explosions, craterings, and blowouts; and ● Terrorist attacks on our facilities or those of other energy companies. Any of these risks could result in loss of human life, personal injuries, significant damage to property, environmental pollution, impairment of our operations and substantial financial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses, and only at levels we believe 28~~