



## PRESS RELEASE

### EPSILON ENERGY ANNOUNCES FILING OF ITS 2008 YEAR END DISCLOSURE REQUIREMENTS

**CONCORD, Ontario – April 2, 2009** – Epsilon Energy Ltd. (“Epsilon”, the “Company”) (TSX: EPS) is pleased to announce today the Company has filed its annual audited financial statements for the year ended December 31, 2008, Management Discussion and Analysis for that period, and its Annual Information Form, which includes disclosures and reports relating to reserves data and other oil and gas information pursuant to *National Instrument 51-101 “Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators”*. Copies of this document may be obtained on [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.epsilonenergyltd.com](http://www.epsilonenergyltd.com).

#### Message to Shareholders

2008 was a very challenging year for the oil and gas industry, in which commodity prices soared to record highs followed by a collapse in commodity prices and the global financial markets. Through it all, Epsilon has persevered and is currently in relatively good financial condition with a well-rounded portfolio of oil and gas projects, including its Highway 706 project in the Marcellus shale that is on the verge of commencing natural gas production that has the potential to significantly increase the Company’s natural gas production and related cash flows. Key developments during 2008 through the first quarter of 2009 by country include:

*United States* – The Company has drilled eight wells to date on its Highway 706 project in Pennsylvania. Of those wells, the Company has completed hydraulic fracture stimulation and testing operations on one vertical well and two horizontal wells, resulting in a combined test rate of approximately 8.5 Mmcf/d from those three wells. The Company anticipates commencing natural gas production from its 100% owned Highway 706 project during the second quarter of 2009. Also during 2008, the Company participated in drilling 36 gross (13.47 net) wells within other areas of the Appalachian basin, which contributed to increasing the average daily natural gas production from 1,312 Mcf/d at December 31, 2007 to 2,502 Mcf/d at December 31, 2008, an increase of 191%.

*Canada* – During 2008, the Company’s exploration was focused on the Bakken Shale in the Province of Saskatchewan, where the Company entered into an agreement to earn a 50% interest in an Area of Mutual Interest covering approximately 63,360 gross acres in the Bakken shale by incurring 100% of the cost to drill two horizontal wells. The Company expects to commence drilling its first horizontal well in the Bakken shale during late 2009.

*Republic of Yemen* (“Yemen”) – From mid 2008 to early 2009, the Company participated in drilling 4 gross (2.29 net) wells in Yemen, all of which were non-commercial. As a result of its

disappointing drilling results in Yemen, Epsilon incurred a \$34 million write down of its Yemen assets for the fiscal year of 2008. The Company is currently evaluating the data gathered from operations to date to determine future exploration plans in Yemen, if any.

*Sultanate of Oman (“Oman”)* – In January 2009, the Company acquired a 100% working interest in Block 55 in Oman. The initial exploration period includes a commitment to spend \$25,500,000 over a three year period. The Company does not anticipate incurring any significant capital expenditures in Oman during 2009 and most of 2010, and is currently evaluating whether to bring in an industry partner, obtain third party financing, or a combination of both to fully fund its commitment.

*Federal Democratic Republic of Ethiopia (“Ethiopia”)* – During 2008, the Company entered into a study agreement with the Ministry of Mines and Energy in Ethiopia, whereby the Company has the exclusive right to evaluate for prospective oil and natural gas exploration 154,871.53 square kilometers (96,232.7 miles) of land in the northwestern sector of the country. The term of the agreement is for one year and includes the exclusive right to enter into concession agreement(s) covering any or all of the lands studied. The Company has identified several areas of interest and plans to apply for concession(s) covering some or all of the study agreement area during 2009.

### Selected Annual Information

Selected financial data covering the years ended December 31, 2008 and 2007, respectively, is as follows (amounts rounded to thousands, except per share amounts):

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<i>Statement of operations:</i>		
Revenues .....	\$ 8,300,000	\$ 3,670,000
Cost of operations.....	45,482,000	6,745,000
Operating loss.....	(37,182,000)	(3,075,000)
Other income .....	6,094,000	851,000
Net loss before income taxes .....	(31,088,000)	(2,224,000)
Future income tax expense .....	2,600,000	-
Net loss.....	<u>\$ (33,688,000)</u>	<u>\$ (2,224,000)</u>

*Per Common Share data:*

Basic and diluted net loss share .....	\$ (0.71)	\$ (0.08)
Basic weighted average number of shares outstanding .....	47,504,000	27,148,000
Dividends per share .....	\$ -	\$ -

*Cash Flows:*

Net cash provided by or (used in) operating activities.....	\$ (6,596,000)	\$ 1,116,000
Net cash used in investing activities.....	\$ (72,945,000)	\$ (44,017,000)
Net cash provided by financing activities.....	\$ 49,768,000	\$ 83,408,000
Effect of currency rates on cash and cash equivalents.....	\$ (9,069,000)	\$ (728,000)

	<b>As At December 31,</b>	
	<b>2008</b>	<b>2007</b>
<i>Balance Sheet:</i>		
Total assets .....	\$ 134,070,000	\$ 117,323,000
Current liabilities.....	\$ 33,836,000	\$ 9,502,000
Long-term debt .....	\$ 19,000	\$ -
Other liabilities .....	\$ 2,920,000	\$ 181,000
Total liabilities.....	\$ 36,775,000	\$ 9,683,000
Shareholders' equity .....	\$ 97,295,000	\$ 107,640,000

## Results of Operations

(Dollar amounts are rounded to thousands of U.S. dollars, unless stated otherwise)

The following discussion encompasses the Corporation's revenues and costs of operations. Unless noted otherwise, the discussion pertains to the Corporation's Appalachian basin segment, as all other identified geographical operating segments were essentially in the start-up phase during 2008 and 2007 and had no reportable revenues or operating costs during those years.

### Revenues

Since the commencement of the Corporation's first natural gas production during 2006 through December 31, 2008, the Corporation's oil and natural gas revenues have been derived primarily from its West Virginia and New York projects, both of which are in the Appalachian business segment. Historically, the operator in each of the Corporation's projects has marketed the Corporation's pro-rata share of oil and natural gas produced, primarily at index prices applicable to each area of production. In West Virginia, the Corporation receives, on average, a premium of approximately 15% over the posted natural gas prices due to the high Btu content in the natural gas the Corporation produces. Summary data follows:

	Year Ended December 31,	
	2008	2007
<i>Summary Revenue Data:</i>		
Natural Gas:		
Net gas production (Mcf) .....	749,167	470,446
Realized average natural gas price per MCF.....	\$ 9.30	\$ 7.80
Net natural gas revenues .....	\$ 6,969,000	\$ 3,670,000
End of period net production exit rate (Mcf/d) ....	2,502	1,312
Crude oil:		
Net oil production (Bbls) .....	11,992	-
Realized average oil price per Bbl .....	\$ 86.98	\$ -
Net oil revenues .....	\$ 1,043,000	\$ -
End of period net production exit rate (Mcf/d) ....	-	-
Net natural gas gathering fees .....	288,000	-
Total oil and natural gas revenues.....	\$ 8,300,000	\$ 3,670,000

#### *Natural Gas Revenues*

During 2008, natural gas revenues were \$6,969,000, an increase of 90%, and natural gas production was 749,167 Mcf, an increase of 59%, as compared to 2007. The increase in natural gas revenues was principally due to a 19% increase in natural gas prices, a full year of production from the Blue Jacket project (initial production in August 2007) in West Virginia and new wells brought on line during 2008 as a result of the Corporation's ongoing drilling program in West Virginia and New York.

#### *Crude Oil Revenues*

During 2008, the Corporation's crude oil production resulted from three new wells that were brought on line in West Virginia. The oil production from those wells appears to have been related to an isolated fracture system. Oil production peaked at approximately 100 bbls/d in July 2008 and declined to less than five bbls/d at the end of 2008. There was no crude oil production during 2007.

### *Producing Well Counts*

At December 31, 2008, the Corporation had 117 gross (58.59 net) producing wells, including 108 gross (57.56 net) wells in West Virginia, 6 gross (0.28 net) wells in New York, and 3 gross (0.75 net) in Ohio. In addition, the Corporation had 15 gross (8.51 net) shut-in wells waiting on tie-in to facilities, including 7 gross/net wells in Pennsylvania, 3 gross (1.41 net) wells in West Virginia and 5 gross (0.10 net) wells in New York. In comparison, at December 31, 2007, the Corporation had 75 gross (36.1 net) producing wells, including 69 gross (35.4 net) wells in West Virginia, 4 gross (0.2 net) wells in New York, and 2 gross (0.5 net) in Ohio. Also, at December 31, 2007, the Corporation had 23 gross (11.1 net) shut-in wells waiting on tie-in to facilities, including 1 gross/net well in Pennsylvania, 18 gross (10.06 net) wells in West Virginia and 4 gross (0.04 net) wells in New York.

### *Other Income*

Other income consists of net natural gas gathering fees from the Corporation's Blue Jacket project in West Virginia. The Corporation owns a 63% working interest in the gathering system that serves the Blue Jacket project. During the year ended December 31, 2008, net natural gas gathering fees were \$288,000. There were no net natural gas gathering fees recorded during 2007.

### *Cost of Operations*

The Corporation's cost of operations has progressively increased as the Corporation continues to expand its business. Cost of operations includes project operating costs, amortization and depletion, and general and administrative expenses. For the years ended December 31, 2008 and 2007, all project operating costs pertained to the Corporation's Appalachian basin business segment. A summary of the components of the costs of operations for each indicated period follows:

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<i>Project operating costs:</i>		
Production taxes .....	\$ 376,000	\$ 100,000
Lease operating expenses .....	1,414,000	364,000
Royalties .....	2,000	75,000
Total project operating costs.....	<u>1,792,000</u>	<u>539,000</u>
Impairment of unproved properties .....	34,099,000	-
Impairment of investment in convertible debenture .....	-	1,115,000
<i>Amortization, Depletion and Accretion ("DD&amp;A"):</i>		
Amortization.....	106,000	24,000
Depletion .....	1,953,000	1,325,000
Accretion .....	13,000	5,000
Total DD&A.....	<u>2,072,000</u>	<u>1,354,000</u>
<i>General &amp; Administrative ("G&amp;A"):</i>		
General G&A .....	5,672,000	2,347,000
Non-monetary compensation.....	1,847,000	1,390,000
Total G&A.....	<u>7,519,000</u>	<u>3,737,000</u>
Total operating costs.....	<u>\$45,482,000</u>	<u>\$ 6,745,000</u>

### *Project Operating Costs*

Project operating costs consist of production taxes, lease operating expenses, and royalties. Project operating costs were \$1,792,000 and \$539,000 for the years ended December 31, 2008 and 2007, respectively. A description of each category comprising project operating costs follows:

- Production taxes were \$376,000 for the year ended December 31, 2008, an increase of \$276,000, as compared to \$100,000 for the year ended December 31, 2007. The increase was due primarily from increased natural gas production during 2008. Production taxes are assessed by the state in which production occurs. In West Virginia, the production tax rate is approximately 4% of gross revenues. In New York, the Corporation's wells are exempt from production taxes. Production taxes will vary from period-to-period based on production levels by state and/or oil and natural gas prices.
- Lease operating costs were \$1,414,000 or \$1.72/Mcfe and \$364,000 or \$0.77/Mcfe for the years ended December 31, 2008 and 2007, respectively. Lease operating expenses include the operating costs necessary to extract oil and natural gas and transport it to a sales point. The increase of \$1,050,000 or \$0.95/Mcfe for the year ended December 31, 2008, as compared to the year ended December 31, 2007, was the result of a full year of production during 2008 coupled with higher initial production costs associated with the start-up of new wells. Lease operating expenses per Mcf or Bbl will vary from period-to-period based on the level of oil and or natural gas production and related expenses. As the Corporation increases its operations, lease operating expenses are expected to increase accordingly in future periods.
- Royalties were \$2,000 for the year ended December 31, 2008, a decrease of \$73,000 as compared to \$75,000 for the year ended December 31, 2007. Royalties reflect amounts paid to New York royalty owners for natural gas production from wells in which the Corporation is not yet classified as an integrated participating owner, but the Corporation is required to pay its share of royalties applicable to integrated royalty owners. During 2008, the Corporation did not participate in any wells for which it was classified as an integrated participating owner. See Note 12 - "*Contractual Obligations – Trenton-Black River*" in the annual consolidated financial statements for the year ended December 31, 2008.

### *Impairment of Unproved Properties*

During the year ended December 31, 2008, the Corporation recorded unproved property impairments of \$34,099,000, as compared to no unproved property impairments during the same period of 2007. Effective December 31, 2008, the Corporation assessed the carrying value of its unproved properties on Block 41 in Yemen and determined that such costs were partially impaired. The Corporation recorded an impairment of \$34,071,000, which reflects a write-down to the estimated fair value of the Corporation's unproved property costs for Block 41 in Yemen of approximately \$12.5 million at December 31, 2008. See Note 2 (k) "*Measurement Uncertainty*" in the consolidated financial statements for the year ended December 31, 2008. In addition, the Corporation impaired \$28,000 of costs pertaining primarily to Qatar, where it has no further exploration plans. For further information about the Corporation's oil and natural gas reserves, see the Corporation's Form 51-101F as at December 31, 2008 on [www.sedar.com](http://www.sedar.com).

### *Impairment of Investment in Convertible Debenture*

During the year ended December 31, 2008, the Corporation did not have any impairment losses on its investments. At December 31, 2007, the Corporation recognized an impairment loss of \$1,115,000 on its investment in a convertible debenture of Peace River Oil Inc. The Corporation impaired its entire investment in the Peace River Oil Inc. convertible debenture, including \$1,019,000 of principal and \$96,000 of accrued interest after Peace River Oil Inc. defaulted on the principal and interest payments, failed to obtain third party financing that would have provided funds to pay the amounts due, failed to sell certain property interests that would have provided funds to repay the amounts due in whole or in part, and failed to renegotiate the convertible debenture at terms acceptable to the Corporation.

### *Amortization, Depletion and Accretion*

Amortization, depletion and accretion consists of amortization of office equipment, depletion applicable to the Corporation's capitalized proved oil and natural gas properties utilizing the full cost method, and accretion applicable to the Corporation's asset retirement obligations. Substantially all of the Corporation's amortization, depletion and accretion expenses since inception were comprised of depletion expense attributable to the Corporation's producing natural gas properties in the Appalachian basin. Amortization and accretion costs were an immaterial component of DD&A during the reported periods.

Depletion expense was \$1,953,000 or \$2.38/Mcfe, and \$1,325,000 or \$2.82/Mcfe, for the years ended December 31, 2008 and 2007, respectively. Depletion expense was progressively higher due to natural gas production volumes, which increased period over period. During 2008 and 2007, the Corporation's depletion expense applied solely to its United States properties. In accordance with the full cost method for depletion, the Corporation excluded unproved property costs of \$11,182,000 and \$10,571,000 from its United States depletable cost center for the years ended December 31, 2008 and 2007, respectively. The Corporation included \$240,000 and \$232,000 of impaired unproved leasehold costs in its United States depletable cost center for the years ended December 31, 2008 and 2007, respectively. Depletion expense will fluctuate from period to period depending upon production levels, the amount of proved reserves, depletable costs, and the level of capital expenditures, among other factors.

### *General and Administrative*

G&A was \$7,519,000 for the year ended December 31, 2008, an increase of \$3,782,000 over \$3,737,000 for the year ended December 31, 2007. G&A consists of general corporate expenses applicable to all reportable segments, which are comprised primarily of compensation, outside legal, professional and other consulting services, travel and other related corporate costs. Staffing levels increased in 2008 from 2007 levels and there was a full year of direct costs (approximately \$2,700,000) associated with the Corporation's international operations, while a minimal amount was spent during 2007 for international operations. As the Corporation expands its business, G&A expenses are expected to increase accordingly in future periods.

Non-monetary compensation included as a G&A component was \$1,847,000 for the year ended December 31, 2008, an increase of \$457,000, as compared to \$1,390,000 for the year ended December 31, 2007. The increase in 2008 was directly associated with higher staffing levels during 2008. Non-monetary compensation comprises stock options and Common Shares granted to certain employees, consultants and directors of the Corporation. For stock option awards, the Corporation estimated the fair value of such stock options on the date of grant using the Black-Scholes option pricing model and amortized the fair value to G&A expense over the respective vesting periods. For Common Shares granted for services rendered, the fair value is determined based on the average sales price per Common Share on the date of grant, resulting in a charge to compensation expense in the period granted.

### *Other Income or (Expense)*

Other income was \$6,094,000 for the year ended December 31, 2008, an increase of \$5,243,000, as compared to \$851,000 for the year ended December 31, 2007. During 2008, the Corporation earned \$1,205,000 of interest income on its cash and cash equivalents, received \$24,000 pertaining to purchase discounts, incurred \$85,000 of interest expense, wrote off \$140,000 pertaining to unsuccessful start-up costs for a commodity trading company in the Middle East, received \$77,000 of operator overhead fees from the Block 41 joint venture, and recorded a \$5,013,000 gain from the sale of unproved leasehold interests in the Appalachian basin (see Note 9 "*Property and Equipment – Unproved Property Divestitures*" in the annual consolidated financial statements for the year ended December 31, 2008). Other income for the year ended December 31, 2007 of \$851,000 consisted solely of interest income. In future periods, the amount of interest earned or interest expense incurred will vary due to the future levels of the Corporation's cash, cash equivalents, restricted cash and/or debt.

## ***Income Taxes***

Future income tax expense was \$2,600,000 for the year ended December 31, 2008 as compared to none for the same period of 2007. The determination of the Corporation's current and future income tax expense and liabilities requires the interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ from that estimated and recorded by the Corporation's management.

## ***2009 Capital Budget***

For 2009, the Company's Board of Directors approved a capital budget of \$28,800,000. Highlights include:

- Marcellus Shale - \$21,600,000; includes drilling at least two wells in Highway 706, hooking up wells in Highway 706 for production, constructing production infrastructure in Highway 706, and drilling four wells within the Park Place project in New York.
- Yemen - \$3,400,000; includes drilling one exploratory well (drilled in February 2009).
- Oman - \$2,900,000; includes a \$2,000,000 signing bonus pertaining to Block 55.

The amount of capital to be spent in 2009 is mostly discretionary. As such, the Company's capital budget is a "fluid" amount and may increase or decrease due to factors such as available capital, operational success or failure, commodity prices and the actual pace of operations. In order to fully fund its planned operations during 2009, it is likely that the Company may need additional capital to obtain its capital expenditure goals.

## **About Epsilon Energy**

Epsilon is engaged in the exploration and production of oil and natural gas reserves in North America, the Middle East and Africa. Established in 2005, the Company has been a producer of oil and natural gas since 2006. Epsilon's ongoing business strategy involves developing a well-balanced inventory of oil and natural gas projects, including high potential oil & gas properties in the Middle East and Africa coupled with lower risk oil and natural gas properties within Canada and the United States.

## **FOR FURTHER INFORMATION PLEASE CONTACT:**

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## **Forward-Looking Statements**

Certain statements contained in this new release constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in 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 news release should not be unduly relied upon.

## **Special note for news distribution in the United States**

The securities described in this news release have not been registered under the United States Securities Act of 1933, as amended, (the "1933 Act") or state securities laws. Any holder of these securities, by purchasing such securities, agrees for the benefit of Epsilon Energy Ltd. (the "Company") that such securities may not be offered, sold, or otherwise transferred only (A) to the Company or its affiliates; (B) outside the United States in accordance with applicable state laws and either (1) Rule 144(as) under the 1933 Act or (2) Rule 144 under the 1933 Act, if applicable.