Eagle Energy Inc. Announces Third Quarter 2017 ResultsÂ and Board of Directors Changes

10.11.2017 | GlobeNewswire

CALGARY, Alberta, Nov. 09, 2017 (GLOBE NEWSWIRE) -- Eagle Energy Inc. (“Eagle”) (TSX:EGL) is pleased to report its financial and operating results for the third quarter ended September 30, 2017 as well as changes to its board of directors (the “Board”).

Wayne Wisniewski, Eagle’s President and Chief Executive Officer, stated, “At our annual general meeting in June, we laid out two priorities for the remainder of 2017. The first was to drill and test our first North Texas horizontal well in 2017. Although scheduling fracking operations for a single well has been difficult, we are excited to be in the middle of fracking our North Texas well this week and expect to test the well by the end of the year. The second priority was to reduce general and administrative expenses. Eagle has reduced its aggregate executive compensation on an annualized basis by 50% and we expect a 23% year over year reduction in annual general and administrative expenses.”

Changes to Eagle’s Board of Directors

Eagle is pleased to announce that the Board has appointed Mr. Wisniewski as a fifth director of Eagle, effective immediately. Mr. Wisniewski will not receive additional compensation as a result of being a director, in addition to his role as Eagle’s President and Chief Executive Officer.

Eagle also wishes to announce that David Fitzpatrick, the Lead Independent Director and former Chair of the Board, has advised the Board that he will be retiring as a director of Eagle on January 1, 2018. Mr. Fitzpatrick has lead Eagle’s Board since Eagle’s inception.

Richard Clark, Executive Chairman of Eagle, stated, “On behalf of Eagle and its Board, I would like to thank Mr. Fitzpatrick for his many years of service and invaluable leadership of Eagle. We wish him all the best in his well-deserved retirement.”

Eagle’s Board is in the process of determining a suitable candidate to fill the vacancy that will be created in early 2018 by Mr. Fitzpatrick’s retirement.

Third Quarter 2017 Financial Results

Eagle’s unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 and related management’s discussion and analysis have been filed with the securities regulators and are available online under Eagle’s issuer profile on SEDAR at www.sedar.com and on Eagle’s website at www.EagleEnergy.com.

This news release contains non-IFRS financial measures and statements that are forward-looking. Investors should read the sections titled “Non-IFRS Financial Measures” and “Note about Forward-Looking Statements” near the end of this news release. Figures within this news release are presented in Canadian dollars unless otherwise indicated.

Highlights for the Three Months ended September 30, 2017

- During the third quarter, Eagle successfully drilled the first horizontal well on its North Texas property with reservoir quality appearing as good or better than expected along the lateral length. Eagle expects to complete fracking operations and test the well by the end of the year.

- Year-to-date general and administrative charges were 21% lower than the prior year with expectations of a 23% year over year drop for the full year. Eagle previously announced that effective September 1, 2017 its aggregate executive compensation (cash and non-cash on an annualized basis) had been reduced by 50% from 2016 levels of $2.8 million. Eagle also announced that it had negotiated a new Houston office lease which will reduce its 2018 annual rent by 60%, or $US 170,000, and realize average annual savings of 30% when compared to the terms of its current office lease.

2017 Outlook

This outlook section is intended to provide shareholders with information about Eagle’s expectations for capital expenditures, production and operating costs for 2017. Readers are cautioned that the information may not be appropriate for any other purpose. This information constitutes forward-looking information. Readers should note the assumptions, risks and discussions under “Note about Forward-Looking Statements” at the end of this news release.

As a result of higher than anticipated service and supply costs in the third quarter, Eagle is reinstating its capital budget to its original level prior to the August 10, 2017 downward revision. Average production and monthly operating cost guidance remains unchanged from what Eagle previously announced on August 10, 2017 and is as follows:

Guidance

	2017 Revised Guidance	2017 Previous Guidance	Notes
Capital Budget	$23.0 mm	$21.0 mm	(1)
Average Production	3,700 to 3,900 boe/d	3,700 to 3,900 boe/d	(2)
Operating Costs per month	$2.1 to $2.3 mm	$2.1 to $2.3 mm	(3)

Notes:

(1) The revised 2017 capital budget of $23.0 million consists of $US 11.8 million for Eagle’s operations in the United States and $7.8 million for Eagle’s operations in Canada.

(2) The production mix consists of 83% oil, 4% natural gas liquids (“NGLs”) and 13% natural gas. These numbers include working interest and royalty interest volumes.

(3) Operating expense guidance is stated on a per month basis rather than per boe basis due to the mostly fixed nature of the costs.

Eagle’s Expected Funds Flow from Operations, Ending Net Debt and Field Netback

As a result of guidance revisions and updated commodity price and foreign exchange rate assumptions of management, resulting expected funds flow from operations, ending net debt and field netback and related sensitivities are as follows:

	Amount	Notes
Funds Flow from Operations	$12.2 mm	(1)
Ending Net Debt	$71.4 mm	
Field Netback (excluding hedges)	$20.47 / boe	(2)

Notes:

(1) 2017 funds flow from operations is expected to be approximately $12.2 million (previously $10.7 million) based on the following assumptions:

1. average production of 3,800 boe/d (the mid-point of the guidance range);
2. pricing at $US 51.75 (previously $US 50.00) per barrel WTI oil, $US 3.03 (previously $US 3.05) per Mcf NYMEX gas, $CA 2.12 (previously $CA 2.22) per Mcf AECO and $US 18.11 (previously $US 17.48) per barrel of NGL (NGL price is calculated as 35% of the WTI price);
3. differential to WTI is $US 3.18 discount per barrel in Salt Flat, $US 3.50 discount per barrel in North Texas, $CA 11.50 discount per barrel in Dixonville and $CA 8.00 discount per barrel in Twining;
4. average operating costs of $2.2 million per month ($US 0.8 million per month for Eagle’s operations in the United States and $1.2 million per month for Eagle’s operations in Canada), the mid-point of the guidance range; and
5. a foreign exchange rate of $US 1.00 equal to $CA 1.25 (previously $CA 1.24).

(2) This figure assumes average operating costs of $2.2 million per month (the mid-point of the guidance range) and a $US 51.75 (previously $US 50.00) WTI price. Field netback is a non-IFRS financial measure. See “Non-IFRS Financial Measures”.

2017 Sensitivities

The following tables show the sensitivity of Eagle’s 2017 expected funds flow from operations to changes in commodity prices, production and foreign exchange (“FX”) rates:

Funds Flow from Operations	2017 Average Production (3,800 boe/d)		
Sensitivity to Commodity Price	FX 1.20	FX 1.25	FX 1.30
$US 46.75 WTI	$11.5 mm	$11.8 mm	$12.1 mm
$US 51.75 WTI	$11.9 mm	$12.2 mm	$12.5 mm
$US 56.75 WTI	$12.3 mm	$12.6 mm	$13.0 mm

Sensitivity to Production	2017 Average Production (WTI $US 51.75, FX 1.25)		
	3,700	3,800	3,900
Funds Flow from Operations ($CA)	$11.5 mm	$12.2 mm	$13.0 mm

Assumptions:

(1) Operating costs are assumed to be $2.2 million per month (mid-point of guidance range).

(2) Differential to WTI is held constant.

(3) The foreign exchange rate is assumed to be $US 1.00 equal to $CA 1.25, unless otherwise indicated in the table.

Summary of Quarterly Results

($000’s except for boe/d and per share amounts)	Q3/2017	Q2/2017	Q1/2017	Q4/2016	Q3/2016	Q2/2016	Q1
Sales volumes – boe/d	3,749	3,966	3,767	3,803	4,085	4,147	3,8
Revenue, net of royalties	12,459	14,167	14,218	13,891	12,854	13,149	9,0
per boe	36.12	39.25	41.95	39.72	34.20	34.84	25
Operating, transportation and marketing expenses	6,301	5,885	7,165	6,799	6,564	5,928	6,2
per boe	18.27	16.31	21.14	19.44	17.46	15.71	17
Field netback	6,158	8,282	7,053	7,092	6,290	7,221	2,8
per boe	17.85	22.94	20.81	20.28	16.74	19.13	8.0

Funds flow from operations	3,346	4,272	1,589	3,901	4,582	5,148	2,
per boe	9.70	11.84	4.69	11.15	12.19	13.64	6.
per share – basic	0.08	0.10	0.04	0.09	0.11	0.12	0.
per share – diluted	0.07	0.10	0.04	0.09	0.11	0.12	0.
Earnings (loss)	(4,711)	675	1,303	30,508	52	(9,288)	(1.
per share – basic	(0.11)	0.02	0.03	0.72	0.00	(0.23)	(0.
per share - diluted	(0.11)	0.02	0.03	0.72	0.00	(0.23)	(0.
Cash dividends declared	-	-	425	637	636	1,274	1,
per issued share	0.00	0.00	0.01	0.015	0.015	0.03	0.
Current assets	11,122	11,847	18,819	9,302	9,787	10,618	12
Current liabilities	8,042	6,599	11,474	74,758	72,387	75,035	5,
Total assets	213,867	222,155	233,951	218,199	190,945	195,044	19
Total non-current liabilities	92,367	97,086	104,359	26,202	31,690	32,397	96
Shareholders’ equity	113,458	118,470	118,118	117,239	86,868	87,612	97
Shares issued	43,302	42,857	42,857	42,452	42,452	42,452	42

For the three months ended September 30, 2017, sales volumes decreased 5% from the second quarter as a result of natural decline, offset by Eagle’s first half 2017 drilling program, as well as temporary weather-related effects in September 2017 from Hurricane Harvey in Texas.

Field netback decreased 26% from the second quarter due to lower production and an 11% decrease in realized prices which was commensurate with a decrease in the WTI benchmark price. As well, there was a 7% increase in operating, transportation and marketing expenses in the third quarter of 2017 compared to the second quarter of 2017 due to plant turn-arounds and workovers on Twining properties in Canada. For 2017, Eagle remains on-track to achieve its average monthly operating cost guidance of $2.1 to $2.3 million per month.

Funds flow from operations decreased 22% from the second quarter of 2017. This was primarily due to lower field netbacks which were partially offset by a $1.0 million reduction in quarterly general and administrative expenses. Third quarter finance expenses and realized risk management gains remained consistent with the second quarter.

Earnings (loss) on a quarterly basis often do not move directionally or by the same amounts as funds flow from operations. This is due to items of a non-cash nature that factor into the calculation of earnings (loss), and those that are required to be fair valued at each quarter end. Third quarter 2017 funds flow from operations decreased 22% from the second quarter of 2017, yet the third quarter net income was 798% less than the second quarter of 2017 primarily as a result of the decrease in the fair value of unrealized risk management contracts due to stronger forward commodity prices at the end of the third quarter. The third quarter of 2017 includes an unrealized risk management loss of $2.0 million compared to an unrealized risk management gain of $2.2 million in the second quarter of 2017.

Total non-current liabilities decreased in the third quarter from the second quarter due to a lower foreign exchange rate applied to Eagle’s U.S.-denominated debt being slightly offset by additional principal of $US 0.7 million. During the first quarter of 2017, Eagle retired all amounts drawn under its bank credit facility that was classified as a “current” liability and entered into a new four year term loan agreement which is classified as a “non-current” liability. During the second quarter, Eagle prepaid $US 4.0 million of term loan principal.

Non-IFRS Financial Measures

Statements throughout this news release make reference to the term “field netback” which is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers.

“Field netback” is calculated by subtracting royalties, operating expenses, and transportation and marketing expenses from revenues. This method of calculating field netback is in accordance with the standards set out in the Canadian Oil and Gas Evaluation Handbook maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter). Management believes that field netback provides useful information to investors and management because such a measure reflects the quality of production and the level of profitability.

Note about Forward-Looking Statements

Certain of the statements made and information contained in this news release are forward-looking statements and forward-looking information (collectively referred to as “forward-looking statements”) within the meaning of Canadian securities laws. All statements other than statements of historic fact are forward-looking statements. Eagle cautions investors that important factors could cause Eagle’s actual results to differ materially from those projected, or set out, in any forward-looking statements included in this news release.

In particular, and without limitation, this news release contains forward-looking statements pertaining to the following:

- Eagle’s expectations regarding the retirement of one director and finding a suitable candidate to replace the vacancy created;
- Eagle’s expectation that 2017 general and administrative expenses will be approximately 23% below 2016 levels;
- Eagle’s new office lease in Houston and expected 2018 annual rent reduction and average annual savings resulting therefrom;
- Eagle’s 2017 capital budget, specific uses, timing of commencement of drilling, drilling results and relationship to 2017 expected funds flow from operations;
- Eagle’s expectations regarding its 2017 full year average production, monthly operating costs, ending net debt and field netbacks (excluding hedges);
- Eagle’s expectations regarding its 2017 funds flow from operations and sensitivity of this metric to changes in commodity prices, production and foreign exchange rates; and
- anticipated crude oil, NGLs and natural gas production weighting and prices.

With respect to forward-looking statements contained in this news release, assumptions have been made regarding, among other things:

- future crude oil, NGL and natural gas prices, differentials and weighting;
- future foreign exchange rates;
- future production levels;
- future capital expenditures and the ability of Eagle to obtain financing on acceptable terms for its capital projects, operations and future acquisitions;
- Eagle’s 2017 capital budget, which is subject to change in light of ongoing results, prevailing economic circumstances, commodity prices and industry conditions and regulations;
- not including capital required to pursue future acquisitions in the forecasted capital expenditures;
- future production estimates, which are based on the proposed drilling program with a success rate that, in turn, is based upon historical drilling success and an evaluation of the particular wells to be drilled, among other things; and
- projected operating costs, which are estimated based on historical information and anticipated changes in the cost of equipment and services, among other things.

Eagle’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and those in Eagle’s Annual Information Form (“AIF”) dated March 16, 2017.

- volatility of crude oil, NGL, and natural gas prices;
- commodity supply and demand;
- fluctuations in foreign exchange and interest rates;
- inherent risks and changes in costs associated with the development of petroleum properties;
- ultimate recoverability of reserves;
- timing, results and costs of drilling and production activities;
- availability and terms of financing and capital; and

- new regulations and legislation that apply to the operations of Eagle and its subsidiaries.

Additional risks and uncertainties affecting Eagle are contained in the AIF under the heading “Risk Factors”.

As a result of these risks, actual performance and financial results in 2017 may differ materially from any projections of future performance or results expressed or implied by these forward‐looking statements. Eagle’s production rates, operating costs, field netbacks, drilling program, 2017 capital budget, funds flow from operations, ending net debt and reserves are subject to change in light of ongoing results, prevailing economic circumstances, obtaining regulatory approvals, commodity prices, exchange rates, financing terms, and industry conditions and regulations. New factors emerge from time to time, and it is not possible for management to predict all of these factors or to assess, in advance, the impact of each such factor on Eagle’s business, or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. Although management believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date the forward-looking statements were made, there can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to Eagle and its shareholders. These statements speak only as of the date of this news release and may not be appropriate for other purposes. Eagle does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise.

Note Regarding Barrel of Oil Equivalency

This news release contains disclosure expressed as “boe” or “boe/d”. All oil and natural gas equivalency volumes have been derived using the conversion ratio of six thousand cubic feet (“Mcf”) of natural gas to one barrel (“bbl”) of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. In addition, given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 Mcf:1 bbl would be misleading as an indication of value.

About Eagle Energy Inc.

Eagle is an oil and gas corporation with shares listed for trading on the Toronto Stock Exchange under the symbol “EGL”.

All material information about Eagle may be found on its website at www.EagleEnergy.com or under Eagle’s issuer profile at www.sedar.com.

For further information, please contact:

Kelly Tomyn
Chief Financial Officer
(403) 531-1574

Wayne Wisniewski
President & Chief Executive Officer
(713) 300-3245

Eagle Energy Inc.
Suite 2710, 500-4th Avenue SW
Calgary, Alberta T2P 2V6
(403) 531-1575
(855) 531-1575 (toll free)
info@EagleEnergy.com