

# Epsilon Reports Third Quarter 2018 Results

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HOUSTON, Nov. 07, 2018 - [Epsilon Energy Ltd.](#) ("Epsilon" or the "Company") (TSX:EPS) today reported third quarter 2018 financial and operating results.

Mr. Michael Raleigh, Chief Executive Officer, commented, "Epsilon's financial performance over the past quarter demonstrates the quality of our assets and the effect more pipeline transport out of the region has had on realized prices. Our After-tax Net Income was \$2.8 million or \$0.05/share.

In the NW Stack, Epsilon recently acquired an additional 1,300 net acres in the highly prospective over-pressured condensate window. Our net position now totals approximately 8,300 acres, and Epsilon will continue to pursue strategic leasehold interests in our targeted area of interest. We are planning to have one rig active throughout 2019 to pursue our joint interest development assuming anticipated well performance and commodity prices are realized.

In the Marcellus, the Operator is currently drilling 4 wells which will provide Epsilon with 2,500 net lateral feet distributed between the Upper and Lower Marcellus. This will be a significant event for Epsilon as this will prove up additional undeveloped reserves in the materially important Upper Marcellus which to date has not been developed. The sales meter at the multi-well pad has been resized to accommodate the increased volumes and the gathering system operator expects the resulting volumes to start in early Q1 2019. Epsilon expects to participate in an additional 7,500 lateral feet during calendar 2019.

The highly anticipated 1.7 Bcf/d Atlantic Sunrise project commenced service in early October with significant impact on regional natural gas pricing. Currently our realized basis differential has narrowed to \$0.38/mmbtu, and, over the past 30 days, Marcellus cash prices have averaged 89% of NYMEX Henry Hub cash prices.

As part of our intention to list in the US, the company has submitted a Form 10 which provides for a foreign issuer to list on a US exchange. We do not expect any significant comments from the SEC. Once approved, Epsilon will move to expedite a listing on the NASDAQ".

Highlights for the third quarter and material subsequent events following the end of the quarter through the date of this release include:

- EBITDA of \$3.8 million for the quarter.
- Marcellus working interest (WI) gas production averaged 24 MMcf/d for the third quarter of 2018.
- Gathered and delivered 25 Bcfe gross (8.8 Bcfe net to Epsilon's interest) during the quarter through the Auburn System which represents approximately 83% of the maximum throughput.
- Auburn Gas gathering and compression services included third party gas of 0.9 Bcfe during the quarter or approximately 10 MMcf/d.

## Financial and Operating Results

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue by product - total period (\$000)				
Natural gas revenue (\$000)	\$ 4,738	\$ 3,376	\$ 12,999	\$ 15,147
Volume (MMcfe)	2,028	2,017	5,710	6,809
Avg. Price (\$/Mcfe)	\$ 2.34	\$ 1.67	\$ 2.28	\$ 2.22
Exit Rate (MMcfepd)	20.1	21.4	20.1	21.4

Oil and condensate revenue (\$000)	\$ 119	\$ 18	\$ 336	\$ 20
Volume (MBOE)	1.66	0.41	5.14	0.46
Avg. Price (\$/Bbl)	\$ 71.69	\$ 43.87	\$ 65.37	\$ 44.23
Natural gas liquids revenue (\$000)	\$ 99	\$ -	\$ 224	\$ 1
Volume (MBOE)	3.66	-	9.34	0.06
Avg. Price (\$/Bbl)	\$ 26.99	\$ -	\$ 23.98	\$ 18.49
Midstream gathering system revenue (\$000)	\$ 2,550	\$ 1,568	\$ 8,467	\$ 5,810
Total	\$ 7,506	\$ 4,962	\$ 22,026	\$ 20,978

### Capital Expenditures

Epsilon's capital expenditures were \$0.5 million for the three months ended September 30, 2018. Lease acquisition in Pennsylvania and maintenance of the Auburn Gas Gathering system accounted for approximately half the expenditures. The remaining capital was deployed in Oklahoma for a bolt-on lease acquisition.

### Marcellus Operational Guidance

As a result of earlier efforts by our operations team, Epsilon received four well proposals from the Operator during the quarter. Two of the proposed wells are targeting the lower Marcellus formation, and two of the proposed wells are extended reach laterals targeting the upper Marcellus formation. In total, Epsilon expects to have approximately 2,500 net feet of completed lateral in the four wells. Drilling operations have commenced, and the wells are expected to be completed and turned to production in Q1 2019.

The table below details Epsilon's well development status at September 30, 2018:

	June 30, 2018		September 30, 2018	
	Gross	Net	Gross	Net
Producing	91	20.3	96	23.1
Shut-in	8	3.9	4	1.1
Waiting on pipeline	-	-	-	-
Waiting on completion	1	0.0	-	0.0
Drilling	-	-	4	0.4

The Operator did not propose any new wells subsequent to quarter end.

### Third Quarter Results

Epsilon generated revenues of \$7.5 million for the three months ended September 30, 2018 compared to \$5.0 million for the three months ended September 30, 2017.

Realized natural gas prices averaged \$2.34 per Mcf in the third quarter of 2018 and have improved further subsequent to quarter end as a result of additional transportation capacity becoming available in the Northeast as Atlantic Sunrise commenced service in early October. Operating expenses for Marcellus Upstream operations in the third quarter were \$1.3 million.

The Auburn Gas Gathering system delivered 25.1 Bcfe of natural gas during the quarter as compared to 21.5 Bcfe during the second quarter of 2018. Primary gathering volumes decreased 16.4% quarter over quarter to 13.1 Bcfe. Imported cross-flow volumes increased 95.3% to 12.0 Bcfe.

Epsilon reported net after tax income of \$2.8 million attributable to common shareholders or \$0.05 per basic and diluted common share outstanding for the three months ended September 30, 2018, compared to net income of \$0.8 million, and \$0.01 per basic and diluted common share outstanding for the three months

ended September 30, 2017.

For the three months ended September 30, 2018, Epsilon's Adjusted Earnings Before Interest, Taxes, Depreciation, Amortization ("Adjusted EBITDA") was \$3.8 million as compared to \$4.0 million for the three months ended September 30, 2017. The decrease in Adjusted EBITDA was primarily due to lower gains on hedging contracts.

#### About Epsilon

[Epsilon Energy Ltd.](#) is a North American onshore natural gas production and midstream company with a current focus on the Marcellus Shale of Pennsylvania and the Anadarko Basin in Oklahoma.

#### Forward-Looking Statements

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

The reserves and associated future net revenue information set forth in this news release are estimates only. In general, estimates of oil and natural gas reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as production rates, ultimate reserves recovery, timing and amount of capital expenditures, ability to transport production, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the oil and natural gas reserves attributable to any particular group of properties, as well as the classification of such reserves and estimates of future net revenues associated with such reserves prepared by different engineers (or by the same engineers at different times) may vary. The actual reserves of the Company may be greater or less than those calculated. In addition, the Company's actual production, revenues, development and operating expenditures will vary from estimates thereof and such variations could be material.

Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. There is no assurance that forecast price and cost assumptions will be attained and variances could be material.

Proved reserves are those reserves which are most certain to be recovered. There is at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves. Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned. Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation. The estimated future net revenues contained in this news release do not necessarily represent the fair market value of the Company's reserves.

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Special note for news distribution in the United States

The securities described in the 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 "Corporation") that such securities may not be offered, sold, or otherwise transferred only (A) to the Corporation 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.

EPSILON ENERGY LTD.

Interim Unaudited Condensed Consolidated Statements of Operations

(All amounts stated in US\$)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Oil, gas, NGLs and condensate revenue	\$ 4,956,539	\$ 3,393,732	\$ 13,559,073	\$ 10,456,732
Gas gathering and compression revenue	2,549,755	1,568,257	8,466,609	5,125,000
Total revenue	7,506,294	4,961,989	22,025,682	15,581,732
Operating costs and expenses:				
Project operating costs	2,091,589	1,854,151	6,936,908	5,854,151
Depletion, depreciation, amortization and decommissioning accretion	1,531,335	2,009,068	4,378,801	6,009,068
Stock based compensation expense	88,612	54,749	317,164	192,749
General and administrative	1,418,052	677,715	2,883,591	2,009,068
Total operating costs and expenses	5,129,588	4,595,683	14,516,464	14,065,036
Operating income	2,376,706	366,306	7,509,218	1,516,696
Other income and (expense):				
Interest income	1,925	336	4,357	20,000
Finance expense	(24,155)	(46,485)	(120,065)	(120,065)
Realized gain on commodity contracts	(215,940)	1,524,930	(96,568)	1,524,930
Net change in unrealized loss on commodity contracts	(80,880)	(474,338)	(674,339)	300,000
Other expense	43	21,621	13,733	20,000
Net other income (expense)	(319,007)	1,026,064	(872,882)	1,824,930
Net income before tax	2,057,699	1,392,370	6,636,336	3,341,626
Income tax expense - current	(578,052)	-	1,194,772	-
Income tax expense (recovery) - deferred	(150,424)	620,986	(407,028)	3,341,626
NET INCOME	\$ 2,786,175	\$ 771,384	\$ 5,848,592	\$ 3,341,626
Net income (loss) per share, basic	\$ 0.05	\$ 0.01	\$ 0.11	\$ 0.01
Net income (loss) per share, diluted	\$ 0.05	\$ 0.01	\$ 0.11	\$ 0.01
Weighted average number of shares outstanding, basic	54,903,872	55,045,705	54,969,059	55,045,705
Weighted average number of shares outstanding, diluted	54,925,958	55,072,197	54,991,303	55,072,197

## EPSILON ENERGY LTD.

## Interim Unaudited Condensed Consolidated Statements of Financial Position

(All amounts stated in US\$)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 14,569,567	\$ 9,998,853
Accounts receivable	3,481,211	3,366,021
Restricted cash	557,925	556,864
Commodity contracts	-	259,544
Other current assets	268,483	252,631
Total current assets	18,877,186	14,433,913
<i>Non-current assets</i>		
Oil and gas interests:		
Intangible exploration and evaluation costs	18,391,776	17,451,553
Property and equipment (net)	79,445,831	84,459,776
Total non-current assets	97,837,607	101,911,329
Total assets	\$ 116,714,793	\$ 116,345,242
<b>EQUITY AND LIABILITIES</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	\$ 5,690,080	\$ 5,433,824
Commodity contracts	414,795	-
Income taxes payable	1,076	2,644,527
Revolving line of credit	400,000	2,900,000
Total current liabilities	6,505,951	10,978,351
<i>Non-current liabilities</i>		
Decommissioning liabilities	2,308,303	2,806,783
Deferred tax liability	18,442,567	18,849,595
Total non-current liabilities	20,750,870	21,656,378
Total liabilities	27,256,821	32,634,729
<i>Equity</i>		
Share capital	143,929,908	144,304,163
Contributed surplus	11,651,698	11,334,534
Deficit	(75,376,437 )	(81,242,299 )
Accumulated other comprehensive income	9,252,803	9,314,115
Total equity	89,457,972	83,710,513
Total liabilities and shareholders' equity	\$ 116,714,793	\$ 116,345,242

## EPSILON ENERGY LTD.

## Interim Unaudited Condensed Consolidated Statements of Cash Flows

(All amounts stated in US\$)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 5,848,592	\$ 3,594,576
Adjustments for:		
Depletion, depreciation, amortization and decommissioning accretion	4,378,801	6,789,550
Debenture accretion and fee amortization	-	267,773
Net change in unrealized loss on commodity contracts	674,339	(306,249 )

Stock-based compensation expense	317,164	197,268
Income tax expense	787,744	3,403,487
Changes in non-cash balances related to operations	(3,711,434 )	360,101
Net cash provided by operating activities	8,295,206	14,306,506
Cash flows from investing activities:		
Acquisition of oil and natural gas properties - E&E	(940,223 )	(15,499,296 )
Acquisition of oil and natural gas properties - PP&E	422	(1,677,000 )
Additions to oil and natural gas properties - PP&E	136,241	(165,103 )
Change in working capital related to capital asset additions	(1,575 )	(43,547 )
Deposits on acquisitions	-	(900,000 )
Changes in restricted cash	(1,060 )	(25,333 )
Net cash used in investing activities	(806,195 )	(18,310,279 )
Cash flows from financing activities:		
Buyback of common shares	(356,985 )	-
Common stock issued through rights offering	-	17,907,187
Redemption of convertible debentures	-	(29,520,436 )
Exercise of stock options	-	50,243
Repayment of revolving line of credit	(2,500,000 )	(9,560,000 )
Net cash used in financing activities	(2,856,985 )	(21,123,006 )
Effect of currency rates on cash and cash equivalents	(61,312 )	1,449,459
Increase (decrease) in cash and cash equivalents	4,570,714	(23,677,320 )
Cash and cash equivalents, beginning of period	9,998,853	31,486,593
Cash and cash equivalents, end of period	\$ 14,569,567	\$ 7,809,273
Cash and cash equivalents consist of:		
Cash	\$ 14,569,567	\$ 7,809,273
Cash and cash equivalents	\$ 14,569,567	\$ 7,809,273

EPSILON ENERGY LTD.  
Adjusted EBITDA Reconciliation  
(All amounts stated in US \$000)

	Three months ended September 30,		Nine months ended
	2018	2017	2018
Net income (loss)	\$ 2,786	\$ 771	\$ 5,849
Add Back:			
Net interest expense	22	46	115
Deferred income tax provision	(729 )	621	787
Depreciation, depletion, amortization, and accretion	1,531	2,009	4,378
Stock based compensation expense	89	55	317
Net change in unrealized (gain) loss on commodity contracts	81	474	674
Other income	-	2	(1 )
Adjusted EBITDA	\$ 3,780	\$ 3,978	\$ 12,119

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

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that EBITDA provides useful information regarding its ability to service debt and to fund capital expenditures. It further provides investors a helpful measure for comparing operating performance on a "normalized" or recurring basis with the performance of other companies, without giving effect to certain non-cash expenses and other items. This provides management, investors and analysts with comparative information for evaluating the Company in relation to other oil and gas companies providing corresponding non-IFRS financial measures or that have different financing and capital structures or tax rates. These non-IFRS financial measures should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with IFRS. The table above sets forth a reconciliation of Adjusted EBITDA to net income, which is the most directly comparable measure of financial performance calculated under IFRS and should be reviewed carefully.

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