

# Epsilon Energy Ltd. Announces Full Year 2018 Results

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HOUSTON, March 29, 2019 - [Epsilon Energy Ltd.](#) (“Epsilon”) (NASDAQ: EPSN) today reported its financial results for the fourth quarter and full-year ended December 31, 2018.

Michael Raleigh, CEO, commented, “As we guided in February, we recently turned four wells (2,600 net lateral feet to Epsilon’s interests) to sales in Pennsylvania which are currently contributing more than 5 MMcf/d net to our working interest. We anticipate exiting the first quarter of 2019 with 27 MMcf/d of natural gas production in Pennsylvania net to our working interest. Based on recent communications with the operator, we expect to spud an additional four wells (9,300 net lateral feet to Epsilon’s interests) this summer and turn the wells to sales in the fourth quarter.

In addition, in the NW Stack, we recently began drilling the first well of a three well appraisal program to test our lands for the Meramec formation.”

Epsilon’s highlights for 2018 and material subsequent events following year end through the date of this release include:

- Adjusted EBITDA of \$15.6 million for the year ended December 31, 2018.
- Total estimated proved natural gas reserves of 119 Bcf as of December 31, 2018 after 2018 production of 7.6 Bcf, and 31 Mbbl of proved oil and condensate reserves after 2018 production of 5.7 Mbbl.
- Marcellus working interest (WI) gas production averaged 22 MMcf/d for the fourth quarter of 2018. Working interest gas production as of this release is approximately 27 MMcf/d.
- Gathered and delivered 100.1 Bcf gross (35.0 Bcf net to Epsilon’s interest) during the year, or 274 MMcf/d through the Auburn System which represents approximately 83% of designed throughput capacity.
- Gathered and delivered 25.2 Bcf gross (8.8 Bcf net to Epsilon’s interest) during the fourth quarter of 2018.

## Financial and Operating Results

	Twelve months ended December 31,	
	2018	2017
Revenue by product - total period (\$000)		
Natural gas revenue (\$000)	19,031	\$ 19,204
Volume (MMcfe)	7,563	9,010
Avg. Price (\$/Mcf)	\$ 2.52	\$ 2.13
Exit Rate (MMcfepd)	21.2	27.0
Oil and other liquids revenue (\$000)	\$ 671	\$ 122
Volume (MBOE)	17	3
Avg. Price (\$/Bbl)	\$ 39.31	\$ 39.18
Midstream gathering system revenue (\$000)	\$ 9,982	\$ 6,432
Total Revenue	\$ 29,684	\$ 25,757

## Capital Expenditures

Epsilon’s development capital expenditures were \$1.3 million for the year ended December 31, 2018. A total of \$1.0 million was spent drilling four wells in Pennsylvania and \$0.2 million was allocated to the

construction and maintenance of the Auburn Gas Gathering system. \$0.1 million was spent participating with minor interests in the drilling & completing of two wells in Oklahoma. Remaining capital expenditures were related to lease acquisition as well as seismic data for portions of the Company's Oklahoma property.

As detailed in the press release of February 21, 2019, Epsilon's board of directors has approved a \$20-\$25 million capital budget for 2019 which allocates the majority of the capital to the Marcellus.

#### Marcellus Operational Guidance

The Operator finished drilling and began the completions of 4 wells during the fourth quarter of 2018. The table below details Epsilon's well development status at December 31, 2018:

	September 30, 2018		December 31, 2018	
	Gross	Net	Gross	Net
Producing	96	23.1	96	23.1
Shut-in	4	1.1	4	1.1
Waiting on pipeline	-	-	-	-
Waiting on completion	-	-	4	0.4
Drilling	4	0.4	-	-

#### Fourth Quarter Results

Epsilon generated revenues of \$8.8 million for the three months ended December 31, 2018 compared to \$6.0 million for the three months ended December 31, 2017. The Company's Marcellus net revenue interest production was 1.8 Bcf in the fourth quarter, and Oklahoma was 2,596 BOE.

Realized natural gas prices averaged \$3.27 per Mcf in the fourth quarter of 2018. Operating expenses for Marcellus Upstream operations in the fourth quarter were \$1.3 million.

The Auburn Gas Gathering system delivered 25.2 Bcf of natural gas during the quarter as compared to 20.9 Bcf during the fourth quarter of 2017. Primary gathering volumes decreased 12.7% quarter over quarter to 11.4 Bcf. Imported cross-flow volumes increased 15.0% to 13.8 Bcf.

Epsilon reported a net after tax income of \$1.4 million attributable to common shareholders or \$0.05 per basic and diluted common shares outstanding for the three months ended December 31, 2018, compared to net income of \$4.7 million, and \$0.09 per basic and diluted common shares outstanding for the three months ended December 31, 2017.

For the three months ended December 31, 2018, Epsilon's Adjusted Earnings Before Interest, Income Taxes, Depreciation, Amortization ("Adjusted EBITDA") was \$3.4 million as compared to \$2.2 million for the three months ended December 31, 2017. The increase in Adjusted EBITDA was primarily due to the increase in gathering system revenues.

#### Adjusted EBITDA

Epsilon defines Adjusted EBITDA as earnings before (1) net interest expense, (2) taxes, (3) depreciation, depletion, amortization and accretion expense, (4) impairments of 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 US GAAP and should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with US GAAP or as a measure of profitability or liquidity.

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that

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

#### About Epsilon

[Epsilon Energy Ltd.](http://www.epsilonenergyltd.com) is a North American on-shore focused independent exploration and production company engaged in the acquisition, development, gathering and production of oil and gas reserves. Our primary areas of operation are the Marcellus basin in northeast Pennsylvania and the Anadarko basin in Oklahoma. Our assets are concentrated in areas with known hydrocarbon resources, which are conducive to multi-well, repeatable drilling programs. For more information, please visit [www.epsilonenergyltd.com](http://www.epsilonenergyltd.com), where we routinely post announcements, updates, events, investor information, presentations and recent news releases.

#### 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.

## Contact Information:

281-670-0002

Michael Raleigh  
Chief Executive Officer  
Michael.Raleigh@EpsilonEnergyLTD.com

EPSILON ENERGY LTD.  
Audited Consolidated Statements of Operations  
(All amounts stated in US\$)

	Year ended December 31,	
	2018	2017
Revenues:		
Oil, gas, NGLs and condensate revenue	\$ 19,702,643	\$ 19,325,528
Gas gathering and compression revenue	9,981,562	6,431,563
Total revenue	29,684,205	25,757,091
Operating costs and expenses:		
Lease operating expenses	6,665,856	5,723,298
Gathering system operating expenses	1,279,821	896,089
Depletion, depreciation, amortization, and accretion	7,181,753	11,071,759
General and administrative expenses:		
Stock based compensation expense	330,232	229,223
Other general and administrative expenses	4,605,506	4,189,065
Total operating costs and expenses	20,063,168	22,109,434
Operating income (loss)	9,621,037	3,647,657
Other income and (expense):		
Interest income	12,087	26,520
Interest expense	(140,615 )	(955,698 )
Gain (loss) on derivative contracts	(1,938,465 )	2,623,687
Other income (expense)	(149,559 )	27,313
Other income (expense), net	(2,216,552 )	1,721,822
Income before tax	7,404,485	5,369,479
Income tax (benefit) expense	742,425	(2,066,426 )
NET INCOME	\$ 6,662,060	\$ 7,435,905
Currency translation adjustments	(115,306 )	566,381
NET COMPREHENSIVE INCOME	\$ 6,546,754	\$ 8,002,286
Net income per share, basic	\$ 0.24	\$ 0.28
Net income per share, diluted	\$ 0.24	\$ 0.28
Weighted average number of shares outstanding, basic	27,462,788	26,119,927
Weighted average number of shares outstanding, diluted	27,474,125	26,133,295

EPSILON ENERGY LTD.  
Audited Consolidated Balance Sheets  
(All amounts stated in US\$)

December 31,  
2018

**ASSETS***Current assets*

Cash and cash equivalents	\$ 14,401,257
Accounts receivable	5,042,134
Fair value of derivatives	&mdash;
Prepaid income taxes	205,711
Other current assets	244,233
<b>Total current assets</b>	<b>19,893,335</b>

*Non-current assets*

## Property and equipment:

Oil and gas properties, successful efforts method	
Proved properties	118,851,574
Unproved properties	19,498,666
Accumulated depletion, depreciation, and amortization	(83,807,401 )
<b>Total oil and gas properties, net</b>	<b>54,542,839</b>
Gathering system	41,040,847
Accumulated depletion, depreciation, and amortization	(28,137,573 )
<b>Total gathering system, net</b>	<b>12,903,274</b>
Other property and equipment, net	&mdash;
<b>Total property and equipment, net</b>	<b>67,446,113</b>
Other assets:	
Restricted cash	558,261
<b>Total non-current assets</b>	<b>68,004,374</b>
<b>Total assets</b>	<b>\$ 87,897,709</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY***Current liabilities*

Accounts payable trade	\$ 2,585,324
Royalties payable	1,300,539
Other accrued liabilities	2,156,304
Income taxes payable	&mdash;
Fair value of derivatives	297,023
<b>Total current liabilities</b>	<b>6,339,190</b>

*Non-current liabilities*

Revolving line of credit	&mdash;
Other non-current liabilities	&mdash;
Asset retirement obligation	1,625,154
Deferred income taxes	9,989,278
<b>Total non-current liabilities</b>	<b>11,614,432</b>
<b>Total liabilities</b>	<b>17,953,622</b>

## Commitments and contingencies (See Note 10)

*Shareholders' equity*

Common shares, no par, unlimited shares authorized and 27,385,133 shares and 27,522,852 shares issued at December 31, 2018 and December 31, 2017 respectively. At December 31, 2018 Epsilon held 26,953 shares of stock.	143,611,023
Additional paid-in capital	6,519,028
Deficit	(89,983,894 )
Accumulated other comprehensive income	9,797,930
<b>Total shareholders' equity</b>	<b>69,944,087</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 87,897,709</b>

EPSILON ENERGY LTD.  
Audited Consolidated Statements of Cash Flows  
(All amounts stated in US\$)

	Year ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 6,662,060	\$ 7,435,905
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	7,181,753	11,071,759
Debtenture fee amortization	&mdash;	52,924
(Gain) loss on derivatives	1,938,465	(2,623,687 )
Cash received (paid) from settlements of derivatives	(1,381,898 )	2,027,791
Stock-based compensation expense	330,232	229,223
Deferred income tax benefit	(572,405 )	(2,530,136 )
Changes in current assets and liabilities:		
Accounts receivable	(1,707,239 )	1,052,593
Prepaid income taxes and other current assets	(173,513 )	(136,440 )
Accounts payable and accrued liabilities	(545,286 )	1,503,231
Other long-term liabilities	(1,615,313 )	(529,684 )
Net cash provided by operating activities	10,116,856	17,553,479
Cash flows from investing activities:		
Acquisition of unproved oil and gas properties	(260,000 )	(17,451,552 )
Additions to unproved oil and gas properties	(1,787,114 )	&mdash;
Acquisition of proved oil and gas properties	(4,992 )	(1,643,735 )
Refunds of cash calls, net of additions to proved oil and gas properties	166,661	(34,457 )
Additions to gathering system properties	(148,360 )	(200,689 )
Changes in restricted cash	(1,397 )	(26,328 )
Net cash used in investing activities	(2,035,202 )	(19,356,761 )
Cash flows from financing activities:		
Buyback of common shares	(663,944 )	&mdash;
Common stock issued through rights offering (net of issuance costs)	&mdash;	17,907,186
Redemption of convertible debentures	&mdash;	(29,464,190 )
Exercise of stock options	&mdash;	50,243
Repayment of revolving line of credit	(2,900,000 )	(9,560,000 )
Net cash used in financing activities	(3,563,944 )	(21,066,761 )
Effect of currency rates on cash and cash equivalents	(115,306 )	1,382,303
Increase (decrease) in cash and cash equivalents	4,402,404	(21,487,740 )
Cash and cash equivalents, beginning of year	9,998,853	31,486,593
Cash and cash equivalents, end of year	\$ 14,401,257	\$ 9,998,853
Supplemental cash flow disclosures:		
Income taxes paid	\$ 4,130,493	\$ &mdash;
Interest paid	\$ 136,833	\$ 1,477,899
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ (587,472 )	\$ &mdash;
Change in gathering system accrued in accounts payable and accrued liabilities	\$ (48,961 )	\$ (55,950 )
Conversion of debentures to shares (Cdn\$1,000)	&mdash;	869
Asset retirement obligation asset additions and adjustments	\$ (135,900 )	\$ 74,755

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

	Years ended December 31,	
	2018	2017
Net income (loss)	\$ 6,662	\$ 7,436

Add Back:

Net interest expense	129	929
Deferred income tax provision	742	(2,066 )
Depreciation, depletion, amortization, and accretion	7,182	11,072
Stock based compensation expense	330	229
Net change in unrealized (gain) loss on commodity contracts	557	(596 )
Foreign currency translation	(2 )	(4 )
Adjusted EBITDA	\$ 15,600	\$ 17,000

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