

Epsilon Reports Second Quarter 2019 Results

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HOUSTON, Aug. 06, 2019 - [Epsilon Energy Ltd.](#) (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported second quarter 2019 financial and operating results.

Michael Raleigh, CEO, commented, “As planned, the operator spud the first of four lower Marcellus wells on June 26th. These wells are planned to be completed in the fall, and we anticipate turning in-line 9,300 net lateral feet to Epsilon in early December. This should have a meaningful impact on 2019 exit rate volumes heading into the usually constructive winter demand period. We are currently planning our 2020 capital program and expect to conclude our budget prior to year-end.

In the NW Stack, we finished drilling the second well of our appraisal program during the second quarter. We plan to complete the first well during the third quarter, and initial results will be available near year-end. We plan to assess the first well prior to determining the activity on the second well. The originally planned third well in the program has been postponed until next year pending a longer term appraisal of the performance of the first well.

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

- Total Revenues of \$6.8 million for the quarter
- Net after tax income of \$3.8 million for the quarter
- EBITDA of \$5.2 million for the quarter
- Marcellus working interest (WI) gas production averaged 23 MMcf/d for the second quarter of 2019. Working interest gas production as of this release is approximately 23 MMcf/d
- Gathered and delivered 19.1 Bcfe gross (6.7 Bcfe net to Epsilon’s interest) during the quarter through the Auburn Gas Gathering System which represents approximately 64% of the designed throughput capacity
- Auburn Gas gathering and compression services included third party gas of 0.8 Bcfe during the quarter or approximately 8.7 MMcf/d.

Financial and Operating Results

	Three months ended	
	June 30,	
	2019	2018
Revenues (\$000)		
Natural gas revenue	\$ 4,330	\$ 3,414
Volume (MMcf)	1,920	1,783
Avg. Price (\$/Mcf)	\$ 2.26	\$ 1.91
PA Exit Rate (MMcfpd)	21.2	23.7
Oil and other liquids revenue	\$ 169	\$ 187
Volume (MBO)	4.8	5.8
Avg. Price (\$/Bbl)	\$ 35.45	\$ 32.23
Gathering system revenue	\$ 2,265	\$ 2,564
Total Revenues	\$ 6,764	\$ 6,165

Capital Expenditures

Epsilon’s capital expenditures were \$1.3 million for the three months ended June 30, 2019. The capital was directed to the completion of four wells in Pennsylvania, the drilling of one well in Oklahoma, and

maintenance of the Auburn Gas Gathering system.

Marcellus Operational Guidance

The table below details Epsilon's well development status at June 30, 2019:

	June 30, 2019		March 31, 2019	
	Gross	Net	Gross	Net
Producing	99	22.3	103	24.1
Shut-in	5	2.3	1	0.5
Waiting on pipeline	-	-	-	-
Waiting on completion	-	-	-	-
Drilling	1	0.2	-	-

The Operator spud the first of four planned wells one week prior to quarter end.

Second Quarter Results

Epsilon generated revenues of \$6.8 million for the three months ended June 30, 2019 compared to \$6.2 million for the three months ended June 30, 2018.

Realized natural gas prices averaged \$2.26 per Mcf for Marcellus Upstream operations in the second quarter of 2019. Operating expenses for Marcellus Upstream operations in the first quarter were \$1.3 million.

The Auburn Gas Gathering system delivered 19.1 Bcfe of natural gas during the quarter as compared to 24.9 Bcfe during the first quarter of 2019. Primary gathering volumes increased 14.0% quarter over quarter to 15.0 Bcfe. Imported cross-flow volumes decreased 24.1% to 4.1 Bcfe.

Epsilon reported net after tax income of \$3.8 million attributable to common shareholders or \$0.14 per basic and diluted common share outstanding for the three months ended June 30, 2019, compared to net income of \$0.6 million, and \$0.02 per basic and diluted common share outstanding for the three months ended June 30, 2018.

For the three months ended June 30, 2019, Epsilon's Adjusted Earnings Before Interest, Taxes, Depreciation, Amortization ("Adjusted EBITDA") was \$5.2 million as compared to \$3.6 million for the three months ended June 30, 2018. The increase in Adjusted EBITDA was primarily due to higher net income.

About Epsilon

[Epsilon Energy Ltd.](#) is a North American onshore oil and natural gas development 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.

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Interim Unaudited Condensed Consolidated Statements of Operations

(All amounts stated in US\$)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Oil, gas, NGLs and condensate revenue	\$ 4,498,478	\$ 3,600,737	\$ 10,006,141	\$ 8,602,533
Gas gathering and compression revenue	2,265,094	2,564,117	4,703,445	5,340,323
Total revenue	6,763,572	6,164,854	14,709,586	13,942,856

Operating costs and expenses:				
Lease operating expenses	1,583,895	1,591,394	3,302,188	3,521,608
Gathering system operating expenses	238,886	286,290	551,673	716,054
Development geological and geophysical expenses	83,748	—	83,748	—
Depletion, depreciation, amortization, and accretion	1,953,171	1,681,475	3,778,903	3,472,094
General and administrative expenses:				
Stock based compensation expense	133,721	88,912	267,441	171,959
Other general and administrative expenses	921,307	740,664	2,260,868	1,465,538
Total operating costs and expenses	4,914,728	4,388,735	10,244,821	9,347,253
Operating income	1,848,844	1,776,119	4,464,765	4,595,603
Other income and (expense):				
Interest income	46,598	1,525	89,289	2,432
Interest expense	(29,010)	(50,514)	(56,619)	(95,910)
Gain (loss) on derivative contracts	2,734,988	(845,067)	2,224,234	(474,086)
Other income	930,258	12,149	930,281	12,442
Other income (expense), net	3,682,834	(881,907)	3,187,185	(555,122)
Income before tax expense	5,531,678	894,212	7,651,950	4,040,481
Income tax expense	1,693,820	331,904	2,440,416	1,318,946
NET INCOME	\$ 3,837,858	\$ 562,308	\$ 5,211,534	\$ 2,721,535
Currency translation adjustments	1,052	(34,188)	11,844	(90,697)
NET COMPREHENSIVE INCOME	\$ 3,838,910	\$ 528,120	\$ 5,223,378	\$ 2,630,838
Net income per share, basic	\$ 0.14	\$ 0.02	\$ 0.19	\$ 0.10
Net income per share, diluted	\$ 0.14	\$ 0.02	\$ 0.19	\$ 0.10
Weighted average number of shares outstanding, basic	27,355,247	27,480,912	27,373,897	27,501,097
Weighted average number of shares outstanding, diluted	27,397,609	27,492,180	27,402,794	27,512,257

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Interim Unaudited Condensed Consolidated Statements of Financial Position
(All amounts stated in US\$)

	June 30, 2019
ASSETS	
<i>Current assets</i>	
Cash and cash equivalents	\$ 16,614,
Accounts receivable	3,568,8
Fair value of derivatives	904,978
Prepaid income taxes	738,428
Other current assets	307,120
Total current assets	22,134,
<i>Non-current assets</i>	
Property and equipment:	
Oil and gas properties, successful efforts method	
Proved properties	120,717
Unproved properties	20,917,
Accumulated depletion, depreciation, and amortization	(86,558
Total oil and gas properties, net	55,076,
Gathering system	41,286,
Accumulated depletion, depreciation, and amortization	(29,109
Total gathering system, net	12,176,

Total property and equipment, net	67,253,
Other assets:	
Restricted cash	558,990
Fair value of derivatives	834,813
Prepaid drilling costs	2,101,5
Total non-current assets	70,748,
Total assets	\$ 92,882,
LIABILITIES AND SHAREHOLDERS' EQUITY	
<i>Current liabilities</i>	
Accounts payable trade	\$ 3,088,6
Royalties payable	1,111,7
Other accrued liabilities	409,835
Fair value of derivatives	—
Total current liabilities	4,610,2
<i>Non-current liabilities</i>	
Asset retirement obligation	1,688,7
Deferred income taxes	12,382,
Total non-current liabilities	14,071,
Total liabilities	18,681,
Commitments and contingencies (See Note 8)	
<i>Shareholders' equity</i>	
Common shares, no par value, unlimited shares authorized and 27,355,247 shares and 27,385,133 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	143,362
Treasury shares 237,189 shares and 26,953 shares outstanding at June 30, 2019 and December 31, 2018, respectively	(985,26
Additional paid-in capital	6,786,4
Accumulated deficit	(84,772
Accumulated other comprehensive income	9,809,7
Total shareholders' equity	74,201,
Total liabilities and shareholders' equity	\$ 92,882,

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Interim Unaudited Condensed Consolidated Statements of Cash Flows

(All amounts stated in US\$)

	Six months ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 5,211,534	\$ 2,721,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	3,778,903	3,472,094
(Gain) loss on derivative contracts	(2,224,234)	474,086
Cash received from settlements of derivative contracts	187,420	119,373
Stock-based compensation expense	267,441	171,958
Deferred income tax expense (benefit)	2,393,228	(436,232)
Changes in current assets and liabilities:		
Accounts receivable	1,473,287	297,151
Prepaid income taxes and other current assets	(595,604)	(659,010)
Accounts payable, royalties payable and other accrued liabilities	(1,526,708)	(1,747,626)
Other long-term liabilities	—	45,408
Net cash provided by operating activities	8,965,267	4,458,737
Cash flows from investing activities:		

Acquisition of unproved oil and gas properties	(596,500)	(260,000)
Additions to unproved oil and gas properties	(822,006)	(295,281)
Additions to proved oil and gas properties	(1,846,040)	324,526
Additions to gathering system properties	(163,075)	(65,471)
Changes in prepaid drilling costs	(2,101,510)	—
Changes in restricted cash	(729)	(539)
Net cash used in investing activities	(5,529,860)	(296,765)
Cash flows from financing activities:		
Buyback of common shares	(1,233,645)	(243,300)
Repayment of revolving line of credit	—	(2,000,000)
Net cash used in financing activities	(1,233,645)	(2,243,300)
Effect of currency rates on cash and cash equivalents	11,844	(90,697)
Increase in cash and cash equivalents	2,213,606	1,827,975
Cash and cash equivalents, beginning of year	14,401,257	9,998,853
Cash and cash equivalents, end of period	\$ 16,614,863	\$ 11,826,828
Supplemental cash flow disclosures:		
Income taxes paid	\$ 733,200	\$ 3,505,493
Interest paid	\$ 60,401	\$ 95,910
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 12,198	\$ (5,000)
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 82,550	\$ 5,917
Asset retirement obligation asset additions and adjustments	\$ 7,975	\$ 395

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Adjusted EBITDA Reconciliation

(All amounts stated in US \$000)

(in thousands of dollars)

	Three months ended June 30, 2019		Three months ended June 30, 2018	
	2019	2018	2019	2018
Net income	\$ 3,838	\$ 562	\$ 5,212	\$ 2,720
Add Back:				
Net interest (income) expense	(18)	49	(33)	93
Income tax provision	1,694	332	2,440	1,310
Depreciation, depletion, amortization, and accretion	1,953	1,681	3,779	3,470
Stock based compensation expense	134	89	267	172
Net change in unrealized (gain) loss on commodity contracts	(2,363)	857	(2,037)	594
Adjusted EBITDA	\$ 5,238	\$ 3,570	\$ 9,628	\$ 8,378

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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