Eagle Energy Inc. Announces Second Quarter 2019 Results

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Eagle Energy Inc. ("Eagle") (TSX: EGL) today reports its financial and operating results for the quarter ended June 30, 2019.

When reflecting on Eagle's second quarter, Wayne Wisniewski, President and Chief Executive Officer, stated, "Eagle's field netback improved 36% and field netback per boe improved 24% when compared to the first quarter of 2019. These improvements were a result of increased production in the Dixonville area, higher WTI pricing, narrower differentials on the Canadian properties and decreased operating and transportation costs. Ongoing steps were taken to reduce general and administrative expenditures, with staff reductions of 44% since year-end 2018."

Mr. Wisniewski continued, "As stated in previous news releases, we continue to work with our financial advisors to investigate, evaluate and consider possible asset sales and restructuring alternatives. During the quarter, Eagle sold a minor U.S. royalty interest property for $2.2 million, net proceeds of which were used for general working capital purposes. We continue to monitor 2019 capital spending and look at ways to further reduce debt and general and administrative costs."

Second Quarter 2019 Financial Results

Eagle's unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2019 and related management's discussion and analysis ("MD&A") have been filed with the securities regulators and are available online under Eagle's issuer profile 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 "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.

Review of the Three Months ended June 30, 2019

- Closed the sale of minor U.S. royalty assets for proceeds of $CA 2.2 million and used the proceeds for general working capital purposes.
- Reduced long term debt by 21% (from $US 38.5 million to $US 30.4 million) from the second quarter of 2018 by using proceeds from the 2018 third quarter Twining disposition.
- Increased total field netback by 36%, or 24% per barrels of oil equivalent ("boe"), when compared to the first quarter of 2019.
- Increased revenue by 9% per boe and decreased operating and transportation expenses by 14% per boe, when compared to the first quarter of 2019.
- Hedged a combined 675 barrels of oil per day at an average WTI price of $US 59.62 per barrel for the period April to September 2019 to mitigate the risk that fluctuating commodity prices have on generating positive cash flows from operations.
- Entered into an additional hedge for 200 barrels of oil per day at a WTI price of $US 60.03 per barrel for the period of August to December 2019.
- Continued to curtail 2019 capital expenditures to preserve maximum financial flexibility.

Ongoing Measures to address a Going Concern Uncertainty

At June 30, 2019, the following circumstances cause material uncertainties that may cast significant doubt regarding Eagle's ability to continue as a going concern:

- Eagle had a working capital deficiency of $37.3 million.
- Eagle had negative funds flow from operations for the three and six months ended June 30, 2019.
- Eagle's estimate of future cash flows from operating activities over the next twelve months is not sufficient to repay the loan principal which is classified as a current liability.
- Eagle was in default of two of its four financial covenants under the four-year secured term loan from its U.S.-based lender (the "Loan Agreement") at June 30, 2019. Violation of any financial covenant constitutes an immediate event of default under the Loan Agreement. As a result, Eagle's debt continues to be classified as a current liability.
- There is no assurance that Eagle will not be in violation of one or more financial covenants in future quarters.
- During the second quarter, Eagle recorded $1.0 million of finance expense related to the default interest on the term loan balance for the period of January 1 to June 30, 2019. Eagle is currently in discussions with the lender regarding payment terms, which could include a cash payment to the lender or adding the amount of the unpaid interest to the outstanding amount of the loan.

Notwithstanding the defaults, the lender has not, as of the date hereof, exercised any of its available remedies. However, there can be no assurance that it will not do so in the future.

Field netback for the second quarter of 2019 was $1.0 million above first quarter 2019 levels. Higher second quarter 2019 field netback was due to the following:

- Increased overall sales volumes in Dixonville that have now been fully restored to levels achieved prior to the 2018 selective well shut in program.
- Higher WTI pricing and lower differentials on the Canadian properties.
- Reduced field operating expenses.

Eagle has undertaken several cost-cutting measures to reduce administrative and operating expenses, such as reducing the number of its staff by 44% since year end 2018, reducing its number of contractors, negotiating better pricing with contractors and listing its Calgary and Houston office space for sublease. Eagle continues to evaluate exposure to market risks from fluctuations in commodity prices and has entered into risk management contracts to reduce commodity price risks. Eagle has curtailed capital spending for 2019. Eagle also continues to work with its financial advisors to investigate, evaluate and consider possible asset sales and restructuring alternatives.

Negative funds flow from operations in the second quarter of 2019, due to lower pricing, increased finance expense and increased administrative costs associated with severance and retention costs caused Eagle to be in default of the consolidated fixed charge coverage ratio covenant under the Loan Agreement. In addition, when negative funds flow from operations from the second and first quarters of 2019 were combined with low WTI oil prices and historically wide Alberta oil price differentials during the fourth quarter of 2018, Eagle was also in default of the consolidated leverage ratio covenant, which is a trailing four quarters based calculation.

Eagle's ability to meet its ongoing financial liabilities, including liabilities relating to the Loan Agreement, and to continue as a going concern, is dependent upon the ongoing support from its lender and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements. There is no certainty that such initiatives will be successful.

During 2019, Eagle has undertaken the following:

- On March 12, 2019, Eagle entered into a fixed price financial swap on 450 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of $US 57.81 per barrel in order to mitigate the risk that fluctuating commodity prices have on generating positive cash flows from operations.
- On April 8, 2019, Eagle entered into a fixed price financial swap on 225 barrels of oil per day for the period of April 1 to September 30, 2019 at a WTI price of $US 63.23 per barrel in order to mitigate the risk that fluctuating commodity prices has on generating positive cash flows from operations.
- On July 15, 2019, Eagle entered into a fixed price financial swap on 200 barrels of oil per day for the period of August 1 to December 31, 2019 at a WTI price of $US 60.03 per barrel in order to mitigate the risk that fluctuating commodity prices has on generating positive cash flows from operations.
- Continued to reduce expenses by trimming corporate office staff by 44% and decreasing field contractors in the Dixonville area by 25% since year-end 2018.
- Given the improvement in commodity prices since the end of 2018, Eagle's ongoing work with its financial advisors in investigating, evaluating and considering possible asset sales and restructuring alternatives, Eagle made the decision to forego entering into another forbearance agreement (upon the January 31, 2019 expiry of the initial forbearance agreement) with its lender. Eagle felt this afforded it the maximum flexibility to manage its business and avoided incurring additional fees and conditions associated with a forbearance agreement.

Summary of Quarterly Results

($000's except for boe/d and per share amounts)	Q2/2019	Q1/2019	Q4/2018	Q3/2018	Q2/2018	Q1/2018	Q4/2017	Q3/2017
Sales volumes – boe/d	1,664	1,542	1,852	1,958	2,262	2,974	3,804	3,749
Revenue, net of royalties	6,573	5,822	5,577	9,010	10,228	12,461	14,725	12,459
per boe	43.40	41.95	32.73	50.01	49.69	46.57	42.08	36.12
Operating, transportation and marketing expenses	2,943	3,150	2,730	3,946	4,206	5,109	6,864	6,301
per boe	19.43	22.69	16.02	21.91	20.43	19.10	19.61	18.27
Field netback[1]	3,630	2,672	2,847	5,064	6,022	7,352	7,861	6,158
per boe	23.97	19.26	16.71	28.10	29.26	27.47	22.47	17.85
Funds flow (used in) generated from operations	(508)	(433)	1,062	1,622[2]	1,932	1,718[3]	3,488	3,346
per boe	(3.35)	(3.11)	6.23	9.00	9.39	6.42	9.98	9.70
per share – basic	(0.01)	(0.01)	0.02	0.04	0.04	0.04	0.08	0.08
per share – diluted	(0.01)	(0.01)	0.02	0.04	0.04	0.04	0.08	0.07
Loss	(205)	(2,908)	(8,259)	(1,887)	(15,093)	(2,568)	(14,293)	(4,711)
per share – basic	(0.00)	(0.07)	(0.19)	(0.04)	(0.34)	(0.06)	(0.34)	(0.11)
per share - diluted	(0.00)	(0.07)	(0.19)	(0.04)	(0.34)	(0.06)	(0.34)	(0.11)
Current assets	8,353	7,633	7,751	13,270	10,920	14,941	13,869	11,122
Current liabilities	45,610	47,809	47,769	9,686	5,762	7,528	13,715	8,042
Total assets	136,750	138,011	136,674	141,264	159,935	174,877	207,314	213,867
Total non-current liabilities	22,529	21,083	16,658	51,886	62,427	70,870	94,312	92,367
Shareholders' equity	68,611	69,119	72,247	79,692	81,709	96,479	99,287	113,458
Shares issued	44,879	44,244	44,244	44,244	43,750	43,750	43,302	43,302

(1) Field netback is a Non-IFRS financial measure.

(2) Includes one-time disposition costs of $0.7 million relating to the Twining disposition.

(3) Includes one-time disposition costs of $3.4 million relating to the Salt Flat disposition

For the three months ended June 30, 2019, sales volumes were higher than the previous quarter due to increased production in the Dixonville area as a result of restoring production after the selective well shut-in program late in the fourth quarter of 2018. Production is down from previous quarters in 2018 and 2017 primarily due to the effect of the Salt Flat disposition in February 2018 and the Twining disposition in August 2018.

Second quarter 2019 field netback per boe basis increased 24% from the first quarter of 2019 due to higher commodity prices and narrower oil price differentials on Canadian production, as well as lower operating costs.

Second quarter 2019 funds flow from operations decreased by 17% from the first quarter of 2019 primarily due to the addition of a 5% default interest charge of $1.0 million on the outstanding debt that was recorded in the second quarter of 2019 for the period of January 1 to June 30, 2019, which was offset by a higher field netback. Administrative expenses remained consistent with the first quarter of 2019 with $0.5 million of severance and retention costs in the second quarter of 2019 and $0.8 million in the first quarter of 2019. The second quarter of 2019 includes a realized risk management loss of $0.02 million ($nil in the first quarter of 2019).

Changes in earnings (loss) from one quarter to the next often do not move directionally or by the same amount as quarterly changes in funds flow from operations. This is due to items of a non-cash nature, or extraordinary items that factor into the calculation of earnings (loss), and those that are required to be fair valued at each quarter end. The second quarter of 2019 statement of earnings (loss) includes a $2.2 million gain on the disposition of a royalty interest asset located in the United States that is not included in funds flow from operations.

Non-IFRS Financial Measures

Statements throughout this news release make reference to the terms "field netback", "Consolidated Leverage Ratio" and "Consolidated Fixed Charge Ratio", which are non-IFRS financial measures that do 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.

The terms "Consolidated Leverage Ratio" and "Consolidated Fixed Charge Ratio are used for purposes of covenant calculations in the Loan Agreement and are calculated as described under the heading "Liquidity and Capital Resources" in the MD&A.

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 its ability to meet its ongoing financial liabilities, including liabilities relating to the Loan Agreement, and to continue as a going concern being dependent upon the ongoing support from its lender and its ability to fund the repayment of its debt by generating positive cash flows from operations, securing funding from additional debt or equity financing, disposing of assets or making other arrangements;
- Eagle's intentions to reduce debt and corporate costs;
- Eagle's hedging program;
- Eagle's expectation that its future cash flows from operating activities over the next 12 months is not sufficient to repay the loan principal; and
- the possibility of Eagle's lender exercising its remedies under the Loan Agreement in the future.

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 and interest rates;
- future production levels;
- future capital expenditures and the ability of Eagle to obtain financing on acceptable terms;
- future production estimates;
- projected operating costs, which are estimated based on historical information and anticipated changes in the cost of equipment and services, among other things; and
- ongoing support of Eagle by its lender.

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 the annual information form dated March 21, 2019:

- the exercise by Eagle's lender of its rights and remedies under the Loan Agreement as a result of Eagle not being in compliance with all of the covenants under the Loan Agreement;
- volatility of prices and differentials for crude oil, NGLs and natural gas;
- 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.

As a result of these risks, actual performance and financial results in 2019 may differ materially from any projections of future performance or results expressed or implied by these forward?looking statements. Eagle's ability to continue as a going concern, production rates, operating and general and administrative costs, field netbacks, drilling program, capital budget, reserves and potential transactions are subject to change in light of whether the lender exercises its right and remedies under the Loan Agreement, 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.

SOURCE Eagle Energy Inc.

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