

# Eagle Energy Inc. Announces Third Quarter 2019 Results

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[Eagle Energy Inc.](#) ("Eagle") (TSX Venture Exchange: EGL) today reports its financial and operating results for the third quarter ended September 30, 2019.

When reflecting on Eagle's third quarter, Wayne Wisniewski, President and Chief Executive Officer, stated, "Eagle has continued to reduce administrative and overhead expenses in the third quarter of 2019 which were 51% less than the same quarter in 2018. Although field netbacks were negatively affected by lower pricing and unplanned repair costs in the third quarter, Eagle was funds flow positive for the nine months ended September 30, 2019 due, in part, to its hedging program."

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 second 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."

## Third Quarter 2019 Financial Results

Eagle's unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2019 and related management's discussion and analysis have been filed with the securities regulators and are available online under Eagle's issuer profile at [www.sedar.com](http://www.sedar.com) and on Eagle's website at [www.EagleEnergy.com](http://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 September 30, 2019

- On August 15, 2019, Eagle entered into a Limited Waiver of Default Interest and Consent (the "Limited Waiver"), whereby the lender agreed to waive \$US 646,175 of default interest and add \$US 250,000 of default interest for the period of January 1 to July 31, 2019 to the outstanding amount of the term loan in lieu of a cash payment.
- Field netback of \$2.4 million (\$17.52 per barrel of oil equivalency ("boe")) for the three months ended September 30, 2019.
- Decreased administrative expenses by 51% when compared to the three months ended September 2018 (not including costs associated with the Twining disposition in the third quarter of 2018), and by 35% when compared to the second quarter of 2019 (not including severance costs of \$0.5 million recorded in the second quarter).
- Hedged 200 barrels of oil per day at a WTI price of \$US 60.03 per barrel for the period of August to December 2019, and 500 barrels of oil per day at a WTI price of \$US 59.80 per barrel for the period of October to December 2019.
- Continued to curtail 2019 capital expenditures to preserve maximum financial flexibility.

## Ongoing Measures to address a Going Concern Uncertainty

At September 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 \$36.6 million.
- Eagle had funds flow from operations of \$6,000 for the nine months ended September 30, 2019.
- Eagle's estimate of future funds flow 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 one of its four financial covenants under the four-year secured term loan from its U.S.-based lender (the "Loan Agreement"). In addition, excluding the reversal of \$0.6 million of default interest expenses in the third quarter of 2019, Eagle would have been in violation of the consolidated fixed charge ratio. Violation of any financial covenant constitutes an immediate event of default under the Loan Agreement and, 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.
- Beginning August 1, 2019, the additional 5% default interest rate is being charged and paid monthly.

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

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 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.

During 2019, in order to mitigate the risk that fluctuating commodity prices have on generating positive funds flow from operations, 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.
- 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.
- 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.
- On September 16, 2019, Eagle entered into a fixed price financial swap on 500 barrels of oil per day for the period of October 1 to December 31, 2019 at a WTI price of \$US 59.80 per barrel.

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 funds flow 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.

Summary of Quarterly Results

	Q3/2019	Q2/2019	Q1/2019	Q4/2018	Q3/2018	Q2/2018	Q1/2018	Q4/2017
(\$000's except for boe/d and per share amounts)								
Sales volumes &#8211; boe/d	1,457	1,664	1,542	1,852	1,958	2,262	2,974	3,800
Revenue, net of royalties	5,933	6,573	5,822	5,577	9,010	10,228	12,461	14,770
per boe	44.25	43.40	41.95	32.73	50.01	49.69	46.57	42.00
Operating, transportation and marketing expenses	3,585	2,943	3,150	2,730	3,946	4,206	5,109	6,860
per boe	26.74	19.43	22.69	16.02	21.91	20.43	19.10	19.60
Field netback <sup>(1)</sup>	2,348	3,630	2,672	2,847	5,064	6,022	7,352	7,860
per boe	17.52	23.97	19.26	16.71	28.10	29.26	27.47	22.40
Funds flow generated from (used in) operations	947	(508)	(433)	1,062	1,622 <sup>(2)</sup>	1,932	1,718 <sup>(3)</sup>	3,480
per boe	7.06	(3.35)	(3.11)	6.23	9.00	9.39	6.42	9.98
per share &#8211; basic	0.02	(0.01)	(0.01)	0.02	0.04	0.04	0.04	0.08
per share &#8211; diluted	0.02	(0.01)	(0.01)	0.02	0.04	0.04	0.04	0.08
Loss	(119)	(205)	(2,908)	(8,259)	(1,887)	(15,093)	(2,568)	(14,200)
per share &#8211; basic	(0.00)	(0.00)	(0.07)	(0.19)	(0.04)	(0.34)	(0.06)	(0.34)
per share - diluted	(0.00)	(0.00)	(0.07)	(0.19)	(0.04)	(0.34)	(0.06)	(0.34)
Current assets	8,657	8,353	7,633	7,751	13,270	10,920	14,941	13,800
Current liabilities	45,268	45,610	47,809	47,769	9,686	5,762	7,528	13,700
Total assets	137,564	136,750	138,011	136,674	141,264	159,935	174,877	207,500
Total non-current liabilities	23,688	22,529	21,083	16,658	51,886	62,427	70,870	94,300
Shareholders' equity	68,608	68,611	69,119	72,247	79,692	81,709	96,479	99,200
Shares issued	44,879	44,879	44,244	44,244	44,244	43,750	43,750	43,300

(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

Third quarter 2019 funds flow from operations increased by \$1.4 million to \$0.9 million from negative \$0.5

million in the second quarter of 2019. General and administrative costs were \$1.0 million lower in the third quarter than the second quarter, which included \$0.5 million in severance costs. Finance charges in the third quarter were \$0.9 million compared to \$2.3 million in the second quarter due to a credit adjustment recorded in the third quarter to the default interest charge of \$0.7 million originally recorded in the second quarter. The third quarter of 2019 also includes a realized risk management gain of \$0.3 million compared to a realized risk management loss of \$0.02 million in the second quarter of 2019.

For the three months ended September 30, 2019, sales volumes were lower than the previous quarter due to field production volumes remaining in inventory at the end of the quarter in Dixonville and lower gas and NGL volumes in North Texas resulting from a gas facility shut-in. Production decreased from previous quarters in 2018 primarily due to the effect of the Salt Flat disposition in February 2018 and the Twining disposition in August 2018.

Third quarter 2019 field netback per boe basis decreased from the second quarter of 2019 due to lower realized prices and higher operating costs in North Texas for maintenance and repairs.

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 funds flow 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 continuing to work with its financial advisors to investigate, evaluate and consider possible asset sales and restructuring alternatives;
- Eagle's expectation that its future cash flows from operating activities over the next 12 months is not sufficient to repay the loan principal;
- the possibility of Eagle's lender exercising its rights and remedies under the Loan Agreement in the future; and
- the curtailment of Eagle's 2019 capital expenditures.

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

- Eagle's ability to continue as a going concern;
- future crude oil, NGL and natural gas prices, differentials and weighting;
- future foreign exchange and interest rates;
- future production levels;
- future capital expenditures;
- 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 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, its production rates, operating and general and administrative costs, field netbacks, capital expenditures, 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 and lender 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 TSX Venture Exchange under the symbol "EGL".

All material information about Eagle may be found on its website at [www.EagleEnergy.com](http://www.EagleEnergy.com) or under Eagle's issuer profile at [www.sedar.com](http://www.sedar.com).

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