

Epsilon Reports Third Quarter 2019 Results

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HOUSTON, Nov. 13, 2019 - [Epsilon Energy Ltd.](#) (“Epsilon” or the “Company”) (NASDAQ: EPSN) today reported third quarter 2019 financial and operating results.

Michael Raleigh, CEO, commented, “Following the initial flow-back and testing phase the operator turned in-line to sales four lower Marcellus wells on October 30th. Due to one of the wells being drilled shorter than planned, resulting from drilling issues, these four wells contributed 8800’ rather than the originally planned 9300’ of completed lateral net to Epsilon’s interests. During the first few days of November these wells were contributing approximately 13.5 MMcf/d to the Company’s net working interest production of roughly 34.0 MMcf/d. This represents a 65% production increase over the third quarter exit rate.

In the NW Stack the company participated in one net well. We postponed completion capital allocation given the pricing and differentials for crude oil and natural gas liquids which provide a significant contribution to the economics of the play. We intend to re-visit the pricing environment to determine the appropriate timing of completing wells in this project area.

Our team is now focused on the 2020 capital budgeting process and we look forward to updating the market with respect to 2020 production and capex guidance prior to year end.

Epsilon will be presenting at the IDEAS conference at the Westin Dallas Downtown on Nov 20th at 1:40 pm Central. We have scheduled a conference call to have a Q&A regarding the 3rd quarter results on November 25th, 2019 and will announce the dial-in details in a separate note”;

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

- Total Revenues of \$5.2 million for the quarter, compared to \$7.3 million for the same period of 2018.
- Net after tax income of \$1.5 million for the quarter includes \$445 thousand of non-recurring income, compared to \$2.5 million for the same period of 2018.
- EBITDA of \$3.9 million for the quarter, compared to \$3.8 million for the same period in 2018.
- Marcellus working interest (WI) gas production averaged 21.9 MMcf/d for the third quarter of 2019.
- Gathered and delivered 21.1 Bcfe gross (7.4 Bcfe net to Epsilon’s interest) during the quarter through the Auburn Gas Gathering System which represents approximately 69% of the designed throughput capacity.
- Auburn Gas gathering and compression services included third party gas of 0.7 Bcfe during the quarter or approximately 7.3 MMcf/d.

Financial and Operating Results

	Three months ended	
	September 30,	
	2019	2018
Revenues (\$000)		
Natural gas revenue	\$ 2,934	\$ 4,738
Volume (MMcf)	1,790	2,028

Avg. Price (\$/Mcf)	\$ 1.64	\$ 2.34
PA Exit Rate (MMcfpd)	16.7	20.1
Oil and other liquids revenue	\$ 66	\$ 218
Volume (MBO)	2.8	5.3
Avg. Price (\$/Bbl)	\$ 23.73	\$ 40.97
Gathering system revenue	\$ 2,220	\$ 2,294
Total Revenues	\$ 5,219	\$ 7,250

Capital Expenditures

Epsilon's capital expenditures were \$4.8 million for the three months ended September 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 September 30, 2019:

	September 30, 2019		June 30, 2019	
	Gross	Net	Gross	Net
Producing	99	23.8	99	22.3
Shut-in	9	1.9	5	2.3
Waiting on pipeline	-	-	-	-
Waiting on completion	-	-	-	-
Drilling	-	-	1	0.2

Subsequent to quarter end, the Operator flow tested and turned in-line 4 gross (1.07 net) wells.

Third Quarter Results

Epsilon generated revenues of \$5.2 million for the three months ended September 30, 2019 compared to \$7.3 million for the three months ended September 30, 2018.

Realized natural gas prices averaged \$1.64 per Mcf for Marcellus Upstream operations in the third quarter of 2019. Operating expenses for Marcellus Upstream operations in the third quarter were \$1.3 million. As a result of our active hedging program realized natural gas prices averaged \$2.30 per Mcf for Marcellus produced gas during the third quarter.

The Auburn Gas Gathering system delivered 21.1 Bcfe of natural gas during the quarter as compared to 19.1 Bcfe during the second quarter of 2019. Primary gathering volumes decreased 14.1% quarter over quarter to 13.0 Bcfe. Imported cross-flow volumes increased 95.2% to 8.1 Bcfe.

Epsilon reported net after tax income of \$1.5 million attributable to common shareholders or \$0.05 per basic and diluted common share outstanding for the three months ended September 30, 2019, compared to net income of \$2.5 million, and \$0.09 per basic and diluted common share outstanding for the three months ended September 30, 2018.

For the three months ended September 30, 2019, Epsilon's Adjusted Earnings Before Interest, Taxes, Depreciation, Amortization ("Adjusted EBITDA") was \$3.9 million as compared to \$3.8 million for the three months ended September 30, 2018.

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues:				
Oil, gas, NGLs and condensate revenue	\$ 2,999,581	\$ 4,956,539	\$ 13,005,722	\$ 13,005,722
Gas gathering and compression revenue	2,219,613	2,293,648	6,923,058	7,000,000
Total revenue	5,219,194	7,250,187	19,928,780	20,005,722
Operating costs and expenses:				
Lease operating expenses	1,548,902	1,509,634	4,851,090	5,000,000
Gathering system operating expenses	461,036	325,848	1,012,709	1,000,000
Development geological and geophysical expenses	—	—	83,748	—
Depletion, depreciation, amortization, and accretion	1,851,466	1,908,214	5,630,368	5,500,000
Gain on sale of property	(445,173)	—	(1,375,000)	—
General and administrative expenses:				
Stock based compensation expense	133,720	63,691	401,161	200,000
Other general and administrative expenses	952,503	1,418,052	3,213,371	2,500,000
Total operating costs and expenses	4,502,454	5,225,439	13,817,447	14,000,000
Operating income	716,740	2,024,748	6,111,333	6,005,722
Other income and (expense):				
Interest income	38,618	1,925	127,906	400,000
Interest expense	(29,416)	(24,155)	(86,035)	(100,000)
Gain (loss) on derivative contracts	1,270,494	(296,820)	3,494,727	(700,000)
Other income	1	42	456	100,000
Other income (expense), net	1,279,697	(319,008)	3,537,054	(800,000)
Income before tax expense	1,996,437	1,705,740	9,648,387	5,505,722
Income tax expense (benefit)	543,139	(811,901)	2,983,555	500,000
NET INCOME	\$ 1,453,298	\$ 2,517,641	\$ 6,664,832	\$ 5,005,722
Currency translation adjustments	(900)	29,385	10,944	(600,000)
NET COMPREHENSIVE INCOME	\$ 1,452,398	\$ 2,547,026	\$ 6,675,776	\$ 5,005,722
Net income per share, basic	\$ 0.05	\$ 0.09	\$ 0.24	\$ 0.09
Net income per share, diluted	\$ 0.05	\$ 0.09	\$ 0.24	\$ 0.09
Weighted average number of shares outstanding, basic	27,369,106	27,451,936	27,372,283	27,369,106
Weighted average number of shares outstanding, diluted	27,403,110	27,462,979	27,394,238	27,369,106

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

	September 30, 2019
ASSETS	
<i>Current assets</i>	
Cash and cash equivalents	\$ 18,746,400
Accounts receivable	3,172,720

Fair value of derivatives	1,446,55
Prepaid income taxes	&mdash
Other current assets	430,623
Total current assets	23,796,3
<i>Non-current assets</i>	
Property and equipment:	
Oil and gas properties, successful efforts method	
Proved properties	125,443
Unproved properties	21,015,0
Accumulated depletion, depreciation, and amortization	(87,908,
Total oil and gas properties, net	58,550,1
Gathering system	41,278,5
Accumulated depletion, depreciation, and amortization	(29,581,
Total gathering system, net	11,696,6
Total property and equipment, net	70,246,8
Other assets:	
Restricted cash	559,053
Fair value of derivatives	406,457
Prepaid drilling costs	1,739
Total non-current assets	71,214,0
Total assets	\$ 95,010,3
LIABILITIES AND SHAREHOLDERS' EQUITY	
<i>Current liabilities</i>	
Accounts payable trade	\$ 4,049,55
Royalties payable	1,012,3
Income taxes payable	1,338,22
Other accrued liabilities	678,454
JV Partner Cash Advances	8,400
Fair value of derivatives	&mdash
Total current liabilities	7,086,98
<i>Non-current liabilities</i>	
Asset retirement obligation	1,720,0
Deferred income taxes	10,842,3
Total non-current liabilities	12,562,4
Total liabilities	19,649,3
Commitments and contingencies (See Note 8)	
<i>Shareholders' equity</i>	
Common shares, no par value, unlimited shares authorized and 27,380,247 shares and 27,385,133 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively.	143,416
Treasury shares, 363,530 shares and 26,953 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively.	(1,465,9
Additional paid-in capital	6,920,18
Accumulated deficit	(83,319,
Accumulated other comprehensive income	9,808,87
Total shareholders' equity	75,360,9
Total liabilities and shareholders' equity	\$ 95,010,3

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Interim Unaudited Condensed Consolidated Statements of Cash Flows
(All amounts stated in US\$)

Nine months ended September 30,

	2019	2018
Cash flows from operating activities:		
Net income	\$ 6,664,832	\$ 5,239,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	5,630,368	5,380,307
Gain on sale of leases	(1,375,000)	—
(Gain) loss on derivative contracts	(3,494,727)	770,907
Cash received from settlements of derivative contracts	1,344,690	(96,568)
Stock-based compensation expense	401,161	235,649
Deferred income tax expense (benefit)	853,116	(695,534)
Changes in assets and liabilities:		
Accounts receivable	1,869,411	(146,316)
Prepaid income taxes and other current assets	19,321	(287,941)
Accounts payable, royalties payable and other accrued liabilities	(1,422,238)	(757,090)
Income taxes payable	1,338,225	—
Other long-term liabilities	—	(1,347,386)
Net cash provided by operating activities	11,829,159	8,295,205
Cash flows from investing activities:		
Acquisition of unproved oil and gas properties	(596,500)	(260,000)
Additions to unproved oil and gas properties	(919,873)	(680,223)
(Additions to) refunds of proved oil and gas properties	(5,452,166)	260,840
Additions to gathering system properties	(238,823)	(125,751)
Prepaid drilling costs	(1,739)	—
Proceeds from sale of leases	1,375,000	—
Changes in restricted cash	(792)	(1,061)
Net cash used in investing activities	(5,834,893)	(806,195)
Cash flows from financing activities:		
Buyback of common shares	(1,714,291)	(356,984)
Exercise of stock options	54,250	—
Repayment of revolving line of credit	—	(2,500,000)
Net cash used in financing activities	(1,660,041)	(2,856,984)
Effect of currency rates on cash and cash equivalents	10,944	(61,312)
Increase in cash and cash equivalents	4,345,169	4,570,714
Cash and cash equivalents, beginning of year	14,401,257	9,998,853
Cash and cash equivalents, end of period	\$ 18,746,426	\$ 14,569,567
Supplemental cash flow disclosures:		
Income taxes paid	\$ 733,200	\$ 3,840,493
Interest paid	\$ 89,817	\$ 120,065
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 1,129,972	\$ —
Change in gathering system accrued in accounts payable and accrued liabilities	\$ (1,142)	\$ 1,575
Asset retirement obligation asset additions and adjustments	\$ 9,997	\$ 46

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Adjusted EBITDA Reconciliation
(All amounts stated in US \$000)

(in thousands of dollars)	Three months ended September 30, Nine months ended		
	2019	2018	2019
Net income	\$ 1,453	\$ 2,518	\$ 6,665
Add Back:			

Net interest (income) expense	(9)	22	(42)
Income tax provision	543		(812)	2,984
Depreciation, depletion, amortization, and accretion	1,851		1,908		5,630
Stock based compensation expense	134		64		401
Net change in unrealized (gain) loss on commodity contracts	(113)	81	(2,150)
Adjusted EBITDA	\$ 3,859		\$ 3,781		\$ 13,488

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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