

Epsilon Reports Third Quarter 2023 Results

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HOUSTON, Nov. 09, 2023 - [Epsilon Energy Ltd.](#) ("Epsilon" or the "Company") (NASDAQ: EPSN) today reported third quarter 2023 financial and operating results.

Third Quarter Financial Highlights:

- Reported net revenue interest (NRI) production of 2.0 Bcfe (21.5 MMcfe per day) for the quarter ended September 30, 2023, a decrease of 14% compared to the prior quarter.
 - As previously disclosed in our August operational update, the quarter over quarter decrease was caused in part by seven wells brought offline for 52 days during the quarter in Pennsylvania to accommodate a workover operation (cumulative NRI production rate for the wells before shut-in was 3.5 MMcf per day). These wells are now back online.
- Realized average price of \$2.32 per Mcfe including hedges (\$1.64 per Mcfe excluding hedges) for the quarter ended September 30, 2023, a decrease of 5% compared to the prior quarter.
- Reported total revenues of \$6.3 million for the quarter ended September 30, 2023, a decrease of 3% compared to the prior quarter.
 - \$3.2 million from natural gas, oil, and NGL sales, a decrease of 25% compared to the prior quarter
 - \$3.1 million from gathering and compression fees through our ownership in the Auburn Gas Gathering System, after eliminating revenue earned from Epsilon production (\$0.3 million), an increase of 39% compared to the prior quarter. This included \$1.0 million of revenue received from a backward looking fee adjustment as a result of an internal audit by the system operator.
- Reported Adjusted EBITDA of \$3.9 million for the quarter ended September 30, 2023.
- Cash, cash equivalents (including restricted cash), and short term investments totaled \$31.9 million at September 30, 2023.
- Returned \$4.0 million to shareholders during the quarter ended September 30, 2023.
 - \$2.6 million through the repurchase of 525,000 shares at \$5.00 per share, over a 2% reduction of shares outstanding
 - \$1.4 million through the quarterly dividend
 - 1.4 million shares remain under the approved buyback program (expires in March 2024)
- Realized gains of \$1.3 million on Henry Hub (HH) and TGP Z4 basis swaps totaling 455,000 MMBTU.
- Placed Henry Hub (HHUB) and TGP Z4 basis swaps for November 2023 through March 2024 (at a net realized price of \$2.59 per MMBTU, for 380,000 MMBTU) and April 2024 through October 2024 (at a net realized price of \$2.05 per MMBTU, for 1,070,000 MMBTU).
 - After quarter-end, we placed additional Henry Hub (HHUB) and TGP Z4 basis swaps for November 2023 through March 2024 (at a net realized price of \$2.65 per MMBTU, for 380,000 MMBTU) and April 2024 through October 2024 (at a net realized price of \$2.09 per MMBTU, for 535,000 MMBTU).

Third Quarter Operating Results:

Epsilon's capital expenditures were \$5.5 million for the quarter ended September 30, 2023, including certain pre-paid well costs. This capital was primarily related to the drilling of one gross (0.25 net) well and the completion of two gross (0.5 net) wells in Ector Co. Texas (\$4.8 million).

During the quarter, we received well proposals from our operating partner in Pennsylvania for the drilling and

completion of seven gross wells (0.74 net). The first three wells have been drilled, and drilling is expected to commence on the fourth this month. All seven wells are expected to be drilled by year end with completions expected in the first half of 2024.

In addition, initial investment plans for 2024 on our position in Ector Co. Texas call for the drilling and completion of up to four gross (1.0 net) wells, starting in the first quarter. The two gross (0.5 net) wells drilled in 2023 are now completed and on flowback. Initial results are encouraging and in-line with our pre-drill projections.

Jason Stabell, Epsilon's Chief Executive Officer, commented, "Our announced investments and ongoing activities in Pennsylvania and Texas position the company for per share volume and cash flow growth next year, and represent the next step in our objective to deliver sustainable and attractive returns across a more diversified portfolio. These investments will be comfortably funded from cash flow and cash on hand while allowing us to pursue additional opportunities on existing assets and in new areas, to pay our annual dividend and to repurchase our shares opportunistically."

Earning's Call:

The Company will host a conference call to discuss its results on Friday, November 10, 2023 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time).

Interested parties in the United States and Canada may participate toll-free by dialing (833) 816-1385. International parties may participate by dialing (412) 317-0478. Participants should ask to be joined to the "Epsilon Energy Third Quarter 2023 Earnings Conference Call."

A webcast can be viewed at: <https://event.choruscall.com/mediaframe/webcast.html?webcastid=TKlial4y>. A webcast replay will be available on the Company's website (www.epsilonenergyltd.com) following the call.

About Epsilon

[Epsilon Energy Ltd.](#) is a North American onshore natural gas and oil production and gathering company with assets in Pennsylvania, Texas, New Mexico, and Oklahoma.

For more information, please visit 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.

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Unaudited Consolidated Statements of Operations

(All amounts stated in US\$)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenues from contracts with customers:				
Gas, oil, NGL, and condensate revenue	\$ 3,241,531	\$ 19,171,121	\$ 14,509,184	\$ 48,123,456
Gas gathering and compression revenue	3,068,996	2,072,806	7,657,755	6,123,456
Total revenue	6,310,527	21,243,927	22,166,939	54,246,912
Operating costs and expenses:				
Lease operating expenses	1,559,957	2,024,229	4,404,757	5,612,345
Gathering system operating expenses	631,725	600,672	1,854,000	1,678,901
Development geological and geophysical expenses	-	2,387	-	7,123
Depletion, depreciation, amortization, and accretion	1,392,032	1,706,030	4,780,766	4,812,345
Loss (gain) on sale of oil and gas properties	-	-	1,449,871	(2,123,456)
General and administrative expenses:				
Stock based compensation expense	439,653	500,597	799,149	834,567
Other general and administrative expenses	1,540,358	2,015,272	5,160,757	4,612,345
Total operating costs and expenses	5,563,725	6,849,187	18,449,300	17,553,036
Operating income	746,802	14,394,740	3,717,639	36,693,876
Other income (expense):				
Interest income	384,732	89,638	1,308,695	1,234,567
Interest expense	(8,760)	(17,501)	(71,619)	(34,567)
(Loss) gain on derivative contracts	(24,303)	(929,637)	1,672,535	(1,234,567)
Other income (expense), net	468	(32,777)	5,169	(9,876)
Other income (expense), net	352,137	(890,277)	2,914,780	(1,234,567)
Net income before income tax expense	1,098,939	13,504,463	6,632,419	36,123,456
Income tax expense	710,164	3,896,010	2,283,228	10,123,456
NET INCOME	\$ 388,775	\$ 9,608,453	\$ 4,349,191	\$ 25,999,999
Currency translation adjustments	(846)	(34,524)	(2,317)	(4,567)
Unrealized gain (loss) on securities	24,641	-	(22,365)	-
NET COMPREHENSIVE INCOME	\$ 412,570	\$ 9,573,929	\$ 4,324,509	\$ 25,995,432
Net income per share, basic	\$ 0.02	\$ 0.42	\$ 0.19	\$ 1.12
Net income per share, diluted	\$ 0.02	\$ 0.41	\$ 0.19	\$ 1.11
Weighted average number of shares outstanding, basic	22,118,984	23,011,729	22,616,539	23,123,456
Weighted average number of shares outstanding, diluted	22,178,686	23,169,658	22,631,550	23,123,456

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Unaudited Consolidated Balance Sheets

(All amounts stated in US\$)

ASSETS

Current assets

September
2023

Cash and cash equivalents	\$ 12,498,0
Accounts receivable	4,006,2
Short term investments	18,870,4
Fair value of derivatives	-
Prepaid income taxes	1,954,7
Other current assets	920,224
Operating lease right-of-use assets	-
Total current assets	38,249,8
<i>Non-current assets</i>	
Property and equipment:	
Oil and gas properties, successful efforts method	
Proved properties	154,190
Unproved properties	26,185,8
Accumulated depletion, depreciation, amortization and impairment	(111,14)
Total oil and gas properties, net	69,233,7
Gathering system	42,694,5
Accumulated depletion, depreciation, amortization and impairment	(35,241)
Total gathering system, net	7,452,9
Land	637,764
Buildings and other property and equipment, net	303,211
Total property and equipment, net	77,627,6
Other assets:	
Operating lease right-of-use assets, long term	468,833
Restricted cash	495,000
Fair value of derivatives, long term	42,005
Prepaid drilling costs	2,891,2
Total non-current assets	81,524,7
Total assets	\$ 119,774
LIABILITIES AND SHAREHOLDERS' EQUITY	
<i>Current liabilities</i>	
Accounts payable trade	\$ 1,855,5
Gathering fees payable	556,437
Royalties payable	1,241,5
Accrued capital expenditures	195,917
Accrued compensation	631,646
Other accrued liabilities	556,814
Fair value of derivatives	126,508
Operating lease liabilities	55,656
Total current liabilities	5,220,1
<i>Non-current liabilities</i>	
Asset retirement obligations	2,794,7
Deferred income taxes	11,805,4
Operating lease liabilities, long term	498,155
Total non-current liabilities	15,098,3
Total liabilities	20,318,4
Commitments and contingencies (Note 10)	
<i>Shareholders' equity</i>	
Preferred shares, no par value, unlimited shares authorized, none issued or outstanding	-
Common shares, no par value, unlimited shares authorized and 22,126,800 shares issued and outstanding at September 30, 2023 and 23,117,144 issued and outstanding at December 31, 2022	118,209
Additional paid-in capital	10,655,3
Accumulated deficit	(39,158)

Accumulated other comprehensive income	9,749,80
Total shareholders' equity	99,456,-
Total liabilities and shareholders' equity	\$ 119,774

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Unaudited Consolidated Statements of Cash Flows

(All amounts stated in US\$)

	Nine months ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 4,349,191	\$ 25,997,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	4,780,766	4,898,988
Accretion of discount on available for sale securities	(574,341)	-
Gain on available for sale securities	(60,494)	-
Loss (gain) on sale of oil and gas properties	1,449,871	(221,642)
(Gain) loss on derivative contracts	(1,672,535)	1,124,547
Settlement received (paid) on derivative contracts	2,979,128	(1,396,698)
Settlement of asset retirement obligation	(3,482)	(118,259)
Stock-based compensation expense	799,149	836,949
Deferred income tax expense (benefit)	1,188,059	439,857
Changes in assets and liabilities:		
Accounts receivable	3,195,108	(5,472,585)
Prepaid income taxes	(814,694)	-
Other assets and liabilities	(67,008)	(205,717)
Accounts payable, royalties payable and other accrued liabilities	(1,191,558)	1,511,652
Income taxes payable	-	2,021,246
Net cash provided by operating activities	14,357,160	29,415,667
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(8,017,412)	(226,439)
Additions to proved oil and gas properties	(7,860,073)	(5,528,037)
Additions to gathering system properties	(52,069)	(129,985)
Additions to land, buildings and property and equipment	(49,689)	(13,258)
Purchases of short term investments	(32,812,974)	-
Proceeds from short term investments	14,554,976	-
Proceeds from sale of oil and gas properties	12,498	200,000
Prepaid drilling costs	(2,891,250)	-
Net cash used in investing activities	(37,115,993)	(5,697,719)
Cash flows from financing activities:		
Buyback of common shares	(5,695,275)	(6,234,879)
Exercise of stock options	-	747,112
Dividends paid	(4,217,471)	(4,422,720)
Debt issuance costs	(140,000)	-
Net cash used in financing activities	(10,052,746)	(9,910,487)
Effect of currency rates on cash, cash equivalents, and restricted cash	(2,317)	(48,272)
(Decrease) increase in cash, cash equivalents, and restricted cash	(32,813,896)	13,759,189
Cash, cash equivalents, and restricted cash, beginning of period	45,806,947	27,065,423
Cash, cash equivalents, and restricted cash, end of period	\$ 12,993,051	\$ 40,824,612
Supplemental cash flow disclosures:		
Income taxes paid	\$ 1,442,304	\$ 7,626

	Three months ended September 30, NI		
	2023	2022	20
Interest paid	\$ 88,835	\$ 50,872	
Non-cash investing activities:			
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 41,947	\$ (194,391)	
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 3,441	\$ 12,882	
Asset retirement obligation asset additions and adjustments	\$ 4,640	\$ 10,821	
Net income	\$ 388,775	\$ 9,608,453	\$
Add Back:			
Interest (income) expense, net	(375,972)	(72,137)	
Income tax expense	710,164	3,896,010	
Depreciation, depletion, amortization, and accretion	1,392,032	1,706,030	
Stock based compensation expense	439,653	500,597	
Loss (gain) on sale of assets	-	-	
Loss (gain) on derivative contracts net of cash received or paid on settlement	1,370,573	908,227	
Foreign currency translation loss	(98)	907	
Adjusted EBITDA	\$ 3,925,127	\$ 16,548,087	\$

Epsilon defines Adjusted EBITDA as earnings before (1) net interest expense, (2) taxes, (3) depreciation, depletion, amortization and accretion expense, (4) impairments of natural gas and oil properties, (5) non-cash stock compensation expense, (6) gain or loss on derivative contracts net of cash received or paid on settlement, and (7) other income. Adjusted EBITDA is not a measure of financial performance as determined under U.S. GAAP and should not be considered in isolation from or as a substitute for net income or cash flow measures prepared in accordance with U.S. 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 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 natural gas and oil companies providing corresponding non-U.S. GAAP financial measures or that have different financing and capital structures or tax rates. These non-U.S. GAAP financial measures should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with U.S. GAAP.

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