ABRAXAS PETROLEUM CORP
Form 10-Q
November 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______

COMMISSION FILE NUMBER: 001-16071

ABRAXAS PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**74-2584033**
(State of Incorporation)	(I.R.S. Employer Identification No.)

18803 Meisner Drive, San Antonio, TX 78258

(Address of principal executive offices) (Zip Code)

210-490-4788
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not mark if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Sec 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's common stock outstanding as of November 5, 2018 was 166,605,245.

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Forward-Looking Information

We make forward-looking statements throughout this report. Whenever you read a statement that is not simply a statement of historical fact (such as statements including words like “believe,” “expect,” “anticipate,” “intend,” “will,” “plan,” “may,” “estimate,” “could,” “potentially” or similar expressions), you must remember that these are forward-looking statements, and that our expectations may not be correct, even though we believe they are reasonable. The forward-looking information contained in this report is generally located in the material set forth under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” but may be found in other locations as well. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon our management’s reasonable estimates of future results or trends. The factors that may affect our expectations regarding our operations include, among others, the following:

- the prices we receive for our production and the effectiveness of our hedging activities;
- the availability of capital including under our credit facility;
- our success in development, exploitation and exploration activities;
- declines in our production of oil and gas;
- limits on our growth and our ability to finance our operations, fund our capital needs and respond to changing conditions imposed by our bank credit facility and restrictive debt covenants;
- our ability to make planned capital expenditures;
- ceiling test write-downs resulting, and that could result in the future, from lower oil and natural gas prices;
- political and economic conditions in oil producing countries, especially those in the Middle East;
- price and availability of alternative fuels;
- our ability to procure services and equipment for our drilling and completion activities;

- our acquisition and divestiture activities;

- weather conditions and events;

- the proximity, capacity, cost and availability of pipelines and other transportation facilities; and

- other factors discussed elsewhere in this report.

Initial production, or IP, rates, for both our wells and for those wells that are located near our properties, are limited data points in each well's productive history. These rates are sometimes actual rates and sometimes extrapolated or normalized rates. As such, the rates for a particular well may change as additional data becomes available. Peak production rates are not necessarily indicative or predictive of future production rates, expected ultimate recovery, or EUR, or economic rates of return from such wells and should not be relied upon for such purpose. In addition, the way we calculate and report peak IP rates and the methodologies employed by others may not be consistent, and thus the values reported may not be directly and meaningfully comparable. Lateral lengths described are indicative only. Actual completed lateral lengths depend on various considerations such as lease-line offsets. Abraxas' standard length laterals, sometimes referred to as 5,000 foot laterals, are laterals with completed length generally between 4,000 feet and 5,500 feet. Mid-length laterals, sometimes referred to as 7,500 foot laterals, are laterals with completed length generally between 6,500 feet and 8,000 feet. Long laterals, sometimes referred to as 10,000 foot laterals, are laterals with completed length generally longer than 8,000 feet.

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GLOSSARY OF TERMS

Unless otherwise indicated in this report, gas volumes are stated at the legal pressure base of the State or area in which the reserves are located at 60 degrees Fahrenheit. Oil and gas equivalents are determined using the ratio of six Mcf of gas to one barrel of oil, condensate or natural gas liquids.

The following definitions shall apply to the technical terms used in this report.

Terms used to describe quantities of oil and gas:

"***Bbl***" – barrel or barrels.

"***Bcf***" – billion cubic feet of gas.

"***Bcfe***" – billion cubic feet of gas equivalent.

"***Boe***" – barrels of oil equivalent.

"***Boed or Boepd"*** – barrels of oil equivalent per day.

"***MBbl***" – thousand barrels.

*"**MBoe"*** **–** thousand barrels of oil equivalent.

"***Mcf***" – thousand cubic feet of gas.

"***Mcfe***" – thousand cubic feet of gas equivalent.

"***MMBbl***" – million barrels.

"***MMBoe***" – million barrels of oil equivalent.

"***MMBtu***" – million British Thermal Units of gas.

"***MMcf***" – million cubic feet of gas.

"***MMcfe***" – million cubic feet of gas equivalent.

"NGL" – natural gas liquids measured in barrels.

<u>Terms used to describe our interests in wells and acreage:</u>

"***Developed acreage***" means acreage which consists of leased acres spaced or assignable to productive wells.

"***Development well***" is a well drilled within the proved area of an oil or gas reservoir to the depth or stratigraphic horizon (rock layer or formation) noted to be productive for the purpose of extracting reserves.

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"***Dry hole***" is an exploratory or development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion.

"***Exploratory well***" is a well drilled to find and produce oil and or gas in an unproved area, to find a new reservoir in a field previously found to be producing in another reservoir, or to extend a known reservoir.

"***Gross acres***" are the number of acres in which we own a working interest.

"***Gross well***" is a well in which we own a working interest.

"***Net acres***" are the sum of fractional ownership working interests in gross acres (e.g., a 50% working interest in a lease covering 320 gross acres is equivalent to 160 net acres).

"***Net well***" is the sum of fractional ownership working interests in gross wells.

"***Productive well***" is an exploratory or a development well that is not a dry hole.

"***Undeveloped acreage***" means those leased acres on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil and gas, regardless of whether or not such acreage contains proved reserves.

Terms used to assign a present value to or to classify our reserves:

"***Developed oil and gas reserves****" Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

"Proved developed non-producing reserves*" are those quantities of oil and gas reserves that are developed behind pipe in an existing well bore, from a shut-in well bore or that can be recovered through improved recovery only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells that were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells that will require additional completion work or future recompletion prior to the start of production.

"Proved developed reserves"* Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

"***Proved reserves****" Reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

"Proved undeveloped reserves" *or* ***"PUDs*"*** Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells, in each case where a relatively major expenditure is required.

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"***PV-10***" means estimated future net revenue, discounted at a rate of 10% per annum, before income taxes and with no price or cost escalation or de-escalation, calculated in accordance with guidelines promulgated by the Securities and Exchange Commission ("SEC"). PV-10 is considered a non-GAAP financial measure under SEC regulations because it does not include the effects of future income taxes, as is required in computing the standardized measure of discounted future net cash flows. We believe that PV-10 is an important measure that can be used to evaluate the relative significance of our oil and gas properties and that PV-10 is widely used by securities analysts and investors when evaluating oil and gas companies. Because many factors that are unique to each individual company impact the amount of future income taxes to be paid, the use of a pre-tax measure provides greater comparability of assets when evaluating companies. We believe that most other companies in the oil and gas industry calculate PV-10 on the same basis. PV-10 is computed on the same basis as the standardized measure of discounted future net cash flows but without deducting income taxes.

"***Standardized Measure***" means estimated future net revenue, discounted at a rate of 10% per annum, after income taxes and with no price or cost escalation or de-escalation, calculated in accordance with Accounting Standards Codification ("ASC") 932, "Disclosures About Oil and Gas Producing Activities."

"Undeveloped oil and gas reserves*" Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

*This definition is an abbreviated version of the complete definition set forth in Rule 4-10(a) of Regulation S-X. For the complete definition, see: http://www.ecfr.gov/cgi-bin/retrieveECFR?

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ABRAXAS PETROLEUM CORPORATION

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Part I

FINANCIAL STATEMENTS

Item 1. Financial Statements

ABRAXAS PETROLEUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ 1,618
Accounts receivable:		
Joint owners, net	15,948	14,218
Oil and gas production sales	30,217	17,789
Other	254	86
	46,419	32,093
Derivative asset	470	-
Other current assets	739	778
Total current assets	47,628	34,489
Property and equipment		
Oil and gas properties, full cost method of accounting:		
Proved	1,047,913	923,237
Other property and equipment	39,277	39,136
Total	1,087,190	962,373
Less accumulated depreciation, depletion, amortization and impairment	(754,862)	(724,606)

Total property and equipment - net	332,328	237,767
Derivative asset	11	-
Deferred financing fees - net	1,261	1,285
Other assets	265	265
Total assets	$ 381,493	$ 273,806

See accompanying notes to condensed consolidated financial statements (unaudited).

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ABRAXAS PETROLEUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(in thousands, except share and per share data)

	September 30, 2018 (Unaudited)	December 31, 2017
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 41,607	$ 45,570
Joint interest oil and gas production payable	30,692	11,502
Accrued interest	251	140
Other accrued liabilities	1,403	539
Derivative liabilities	22,845	10,837
Current maturities of long-term debt	264	262
Total current liabilities	97,062	68,850
Long-term debt - less current maturities	149,159	87,354
Other liabilities	132	132
Derivative liabilities long-term	17,188	2,387
Future site restoration	7,734	8,775
Total liabilities	271,275	167,498
Commitments and contingencies (Note 9)		
Stockholders' Equity		
Preferred stock, par value $0.01 per share - authorized 1,000,000 shares; - 0- shares issued and outstanding	-	-
Common stock, par value $0.01 per share, authorized 400,000,000 shares; 166,609,818 and 165,889,901 issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,666	1,659
Additional paid-in capital	417,372	415,471
Accumulated deficit	(308,820)	(310,822)
Total stockholders' equity	110,218	106,308
Total liabilities and stockholders' equity	$ 381,493	$ 273,806

See accompanying notes to condensed consolidated financial statements (unaudited).

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ABRAXAS PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Oil	$37,039	$21,339	$100,505	$48,153
Gas	1,897	1,873	5,882	4,918
Natural gas liquids	2,677	1,495	6,735	3,559
	41,613	24,707	113,122	56,630
Other	12	15	49	46
	41,625	24,722	113,171	56,676
Operating costs and expenses				
Lease operating	6,724	4,089	17,023	11,628
Production and ad valorem taxes	3,569	2,045	9,167	4,823
Depreciation, depletion and amortization	11,011	7,877	29,846	17,666
General and administrative (including stock-based compensation of $428, $750, $1,894 and $2,499 respectively)	2,586	5,057	8,379	10,692
	23,890	19,068	64,415	44,809
Operating income	17,735	5,654	48,756	11,867
Other (income) expense:				
Interest income	-	-	(1)	(1)
Interest expense	2,083	868	5,039	1,876
Amortization of deferred financing fees	113	100	320	354
Loss (gain) on derivative contracts	13,568	5,456	41,215	(10,375)
Loss (gain) on sale of non-oil and gas assets	194	-	181	(102)
	15,958	6,424	46,754	(8,248)
Income (loss) before income tax	1,777	(770)	2,002	20,115
Income tax (expense) benefit	-	-	-	-
Net income (loss)	$1,777	$(770)	$2,002	$20,115
Net income (loss) per common share - basic	$0.01	$-	$0.01	$0.13
Net income (loss) per common share - diluted	$0.01	$-	$0.01	$0.12
Weighted average shares outstanding				

Basic	165,392	163,508	165,083	160,031
Diluted	167,629	163,508	167,865	161,597

See accompanying notes to condensed consolidated financial statements (unaudited).

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ABRAXAS PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2018	**2017**
Operating Activities:		
Net income	$2,002	$20,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on sale of non-oil and gas assets	181	(102)
Net loss (gain) on derivative contracts	41,215	(10,375)
Derivative contract settlements	(16,575)	3,416
Depreciation, depletion and amortization	29,846	17,666
Amortization of deferred financing fees	320	354
Accretion of future site restoration	395	338
Stock-based compensation	1,894	2,499
Changes in operating assets and liabilities:		
Accounts receivable	(14,326)	(2,957)
Other assets	1,727	(812)
Accounts payable and accrued expenses	20,025	(7,883)
Net cash provided by operating activities	66,704	22,259
Investing Activities		
Capital expenditures, including purchase and development of properties	(132,989)	(71,518)
Proceeds from the sale of oil and gas properties	3,116	15,098
Proceeds from the sale of non-oil and gas assets	26	204
Net cash used in investing activities	(129,847)	(56,216)
Financing Activities		
Proceeds from long-term borrowings	93,000	60,000
Payments of long-term borrowings	(31,193)	(89,722)
Exercise of stock options	14	-
Proceeds from issuance of common stock	-	65,224
Deferred financing fees	(296)	(726)
Net cash provided by financing activities	61,525	34,776
(Decrease) increase in cash and cash equivalents	(1,618)	819
Cash and cash equivalents at beginning of period	1,618	-
Cash and cash equivalents at end of period	$-	$819

Supplemental disclosure of cash flow information:		
Interest paid	$4,402	$1,427
Non-cash investing and financing activities		
Issuance of stock for acquisition of oil and gas properties	$-	$3,335
Change in capital expenditures included in accounts payable	(3,823)	16,510
Decrease in asset retirement obligation in capital expenditures	(1,436)	-
	$(5,259)	$19,845

See accompanying notes to condensed consolidated financial statements (unaudited).

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ABRAXAS PETROLEUM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(tabular amounts in thousands, except per share data)

1. Basis of Presentation

The accounting policies followed by Abraxas Petroleum Corporation and its subsidiaries (the "Company") are set forth in the notes to the Company's audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 16, 2018. Such policies have been continued without change. Also, refer to the notes to those financial statements for additional details of the Company's financial condition, results of operations, and cash flows. All material items included in those notes have not changed except as a result of normal transactions in the interim, or as disclosed within this report. The accompanying interim condensed consolidated financial statements have not been audited by our independent registered public accountants, and in the opinion of management, reflect all adjustments necessary for a fair presentation of the financial position and results of operations. Any and all adjustments are of a normal and recurring nature. Although management believes the unaudited interim related disclosures in these condensed consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the SEC. The results of operations and the cash flows for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Consolidation Principles

The terms "Abraxas," "Abraxas Petroleum," "we," "us," "our" or the "Company" refer to Abraxas Petroleum Corporation and of its subsidiaries, including Raven Drilling, LLC ("Raven Drilling").

Rig Accounting

In accordance with SEC Regulation S-X, no income is to be recognized in connection with contractual drilling services performed in connection with properties in which the Company or its affiliates hold an ownership, or other economic interest. Any income not recognized as a result of this limitation is to be credited to the full cost pool and recognized through lower amortization as reserves are produced.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Standards and Disclosures

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update, ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The Company completed a detailed analysis of its revenue streams at the individual contract level to evaluate the impact of the new revenue standard on its consolidated financial statements. Based on these completed assessments, adoption of this standard did not impact our net earnings. The Company adopted this new standard on January 1, 2018, using the modified retrospective method. No cumulative adjustment to retained earnings resulted from the adoption of this standard. See Note 2. "Impact of ASC 606 Adoption" and Note 3. "Revenue from Contracts with Customers" for further details related to the Company's adoption of this standard.

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Recent Accounting Standards and Disclosures Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*) (ASU 2016-02), which significantly changes accounting for leases by requiring that lessees recognize a right-of-use asset and a related lease liability representing the obligation to make lease payments, for certain lease transactions. Additional disclosures about an entity's lease transactions will also be required. ASU 2016-02 defines a lease as "a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time in exchange for consideration." In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842*) - Land Easement Practical Expedient for Transition to Topic 842" (ASU 2018-01), which permits an entity an optional election to not evaluate under ASU 2016-02 those existing or expired land easements that were not previously accounted for as leases prior to the adoption of ASU 2016-02. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842*) - Targeted Improvements" (ASU 2018-11), which permits an entity (i) to apply the provisions of ASU 2016-02 at the adoption date instead of the earliest period presented in the financial statements, and, as a lessor, (ii) to account for lease and nonlease components as a single component as the nonlease components would otherwise be accounted for under the provisions of ASU 2014-09. ASU 2016-02 and other related ASUs are effective for interim and annual periods beginning after December 31, 2018, and early application is permitted. Based on the provisions of ASU 2018-11 and other related ASUs, lessees and lessors may recognize and measure leases at the beginning of the earliest period presented in the financial statements, defined as the effective date, using a modified retrospective approach, or at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings.

The Company is continuing its assessment of ASU 2016-02 by implementing its project plan, evaluating certain operational and corporate policies and processes, further defining its population of leases and reviewing numerous contracts. As part of our assessment work to date, we have engaged external resources to assist us in our efforts of completing the analysis of potential changes to our current accounting practices. Additionally, we have not determined the effect of the ASU on our internal control over financial reporting or other changes in business practices and processes. The Company plans to elect the package of practical expedients within ASU 2016-02 that allows an entity to not reassess prior to the effective date (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, or (iii) initial direct costs for any existing leases. Additionally, The Company plans to elect the practical expedient under ASU 2018-01 and not evaluate existing or expired land easements not previously accounted for as leases prior to the effective date. We do not expect the adoption of this standard will have a material impact on our financial statements. The Company does not intend to early-adopt ASU 2016-02 and other related ASUs and will adopt this new standards update in first quarter 2019 using a modified retrospective approach and will recognize a right of use asset and lease liability on the adoption date. We also anticipate to elect a policy not to recognize right of use assets and lease liabilities related to short-term leases.

Stock-Based Compensation and Option Plans

Stock Options

The Company currently utilizes a standard option-pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees and directors.

The following table summarizes the Company’s stock-based compensation expense related to stock options for the periods presented:

Three Months Ended September 30,		**Nine Months Ended September 30,**	
2018	**2017**	**2018**	**2017**
$327	$376	$1,241	$1,445

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The following table summarizes the Company’s stock option activity for the nine months ended September 30, 2018 (shares in thousands):

	Number of Shares	**Weighted Average Option Exercise Price Per Share**	**Weighted Average Grant Date Fair Value Per Share**
Outstanding , December 31, 2017	8,317	$ 2.35	$ 1.67
Granted	300	$ 2.80	$ 1.87
Exercised	(374)	$ 1.72	$ 1.19
Forfeited	(579)	$ 2.62	$ 1.87
Outstanding , September 30, 2018	7,664	$ 2.38	$ 1.68

As of September 30, 2018, there was approximately $0.7 million of unamortized compensation expense related to outstanding stock options that will be recognized from 2018 through 2021.

Restricted Stock Awards

Restricted stock awards are awards of common stock that are subject to restrictions on transfer and to a risk of forfeiture if the recipient of the award terminates employment with the Company prior to the lapse of the restrictions. The fair value of such shares of restricted stock was determined using the closing price on the grant date and compensation expense is recorded over the applicable vesting periods.

The following table summarizes the Company’s restricted stock activity for the nine months ended September 30, 2018 (shares in thousands):

	Number	**Weighted Average**

	of Shares	Grant Date Fair Value Per Share
Unvested, December 31, 2017	1,479	$ 3.43
Granted	753	$ 2.22
Vested/ Released	(743)	$ 3.13
Forfeited	(180)	$ 3.28
Unvested September 30, 2018	1,309	$ 2.92

The following table summarizes the Company's stock-based compensation expense related to restricted stock for the periods presented:

Three Months Ended September 30,		Nine Months Ended September 30,	
2018	**2017**	**2018**	**2017**
$26	$374	$494	$896

As of September 30, 2018, there was approximately $1.3 million of unamortized compensation expense relating to outstanding restricted shares that will be recognized from 2018 through 2021.

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Performance Based Restricted Stock Awards

Effective on April 1, 2018, the Company issued performance-based shares of restricted stock to certain officers and employees under the Abraxas Petroleum Corporation Amended and Restated 2005 Employee Long-Term Equity Incentive Plan. The shares will vest in 2021 upon the achievement of performance goals based on the Company's Total Shareholder Return ("TSR") as compared to a peer group of companies. The number of shares which would vest depends upon the rank of the Company's TSR as compared to the peer group at the end of the three-year vesting period, and can range from zero percent of the initial grant up to 200% of the initial grant.

The table below provides a summary of Performance Based Restricted Stock as of the date indicated (shares in thousands):

	Number of Shares	**Weighted Average Option Exercise Price Per Share**
Unvested, December 31, 2017	-	$ -
Granted	464	$ 2.37
Vested/ Released	-	$ -
Forfeited	(59)	$ 2.37
Unvested September 30, 2018	405	$ 2.37

Compensation expense associated with the performance based restricted stock is based on the grant date fair value of a single share as determined using a Monte Carlo Simulation model which utilizes a stochastic process to create a range of potential future outcomes given a variety of inputs. As the Compensation Committee intends to settle the performance based restricted stock awards with shares of the Company's common stock, the awards are accounted for as equity awards and the expense is calculated on the grant date assuming a 100% target payout and amortized over the life of the awards.

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The following table summarizes the Company's stock-based compensation expense related to performance based restricted stock for the periods presented:

Three Months Ended September 30,		Nine Months Ended September 30,	
2018	**2017**	**2018**	**2017**
$ 75	$ -	$ 159	$ -

As of September 30, 2018, there was approximately $0.8 million of unamortized compensation expense relating to outstanding performance based restricted shares that will be recognized from 2018 through 2021.

Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas properties. Under this method, all direct costs and certain indirect costs associated with the acquisition of properties and successful as well as unsuccessful exploration and development activities are capitalized. Depreciation, depletion, and amortization of capitalized oil and gas properties and estimated future development costs, excluding unproved properties, are based on the unit-of-production method based on proved reserves. Net capitalized costs of oil and gas properties, less related deferred taxes, are limited by country, to the lower of unamortized cost or the cost ceiling, defined as the sum of the present value of estimated future net revenues from proved reserves based on unescalated prices discounted at 10%, plus the cost of properties not being amortized, if any, plus the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any, less related income taxes. Costs in excess of the present value of estimated net revenue from proved reserves discounted at 10% are charged to proved property impairment expense. No gain or loss is recognized upon sale or disposition of oil and gas properties for full cost accounting companies with proceeds accounted for as an adjustment of capitalized cost. An exception to this rule occurs when the adjustment to the full cost pool results in a significant alteration of the relationship between capitalized cost and proved reserves. The Company applies the full cost ceiling test on a quarterly basis on the date of the latest balance sheet presented. At September 30, 2018 and 2017, our net capitalized costs of oil and gas properties did not exceed the cost ceiling of our estimated proved reserves.

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Restoration, Removal and Environmental Liabilities

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed.

Liabilities for expenditures of a non-capital nature are recorded when environmental assessments and/or remediation is probable, and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments for the liability or component is fixed or reliably determinable.

The Company accounts for future site restoration obligations based on the guidance of ASC 410 which addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. ASC 410 requires that the fair value of a liability for an asset's retirement obligation be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. For all periods presented, we have included estimated future costs of abandonment and dismantlement in our full cost amortization base and amortize these costs as a component of our depletion expense in the accompanying condensed consolidated financial statements.

The following table summarizes the Company’s future site restoration obligation transactions for the nine months ended September 30, 2018 and the year ended December 31, 2017:

September 30, 2018