

MEXCO ENERGY CORP
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File No. 1-31785

MEXCO ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

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Colorado 84-0627918
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

415 West Wall Street, Suite 475
Midland, Texas 79701
(Address of principal executive offices) (Zip code)

(432) 682-1119

(Registrant's telephone number, including area code)

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 and (2) has been subject to such 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 (§ 229.405 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 as defined in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller reporting company

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 outstanding of the registrant's common stock, par value \$.50 per share, as of November 8, 2018 was 2,040,166.

MEXCO ENERGY CORPORATION AND SUBSIDIARIES

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Mexco Energy Corporation and Subsidiaries**CONSOLIDATED BALANCE SHEETS**

	September 30, 2018 (Unaudited)	March 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 348,860	\$ 492,610
Accounts receivable:		
Oil and gas sales	401,894	395,991
Trade	88,837	436,249
Note receivable	29,002	-
Prepaid costs and expenses	37,185	47,583
Total current assets	905,778	1,372,433
Property and equipment, at cost		
Oil and gas properties, using the full cost method	35,753,323	35,224,784
Other	107,484	107,484
Accumulated depreciation, depletion and amortization	(26,874,684)	(26,453,025)
Property and equipment, net	8,986,123	8,879,243
Other noncurrent assets		
	4,135	149,278
Total assets	\$ 9,896,036	\$ 10,400,954
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 126,049	\$ 446,815
Total current liabilities	126,049	446,815
Long-term debt		
	450,000	700,000
Asset retirement obligations	857,261	852,553
Total liabilities	1,433,310	1,999,368
Commitments and contingencies		
Stockholders' equity		
Preferred stock - \$1.00 par value; 10,000,000 shares authorized; none outstanding	-	-
Common stock - \$0.50 par value; 40,000,000 shares authorized; 2,107,166 and 2,104,266 shares issued; 2,040,166 and 2,037,266 shares outstanding as of September 30, 2018 and March 31, 2018, respectively	1,053,583	1,052,133
Additional paid-in capital	7,288,840	7,265,601
Retained earnings	466,304	429,853
Treasury stock, at cost (67,000 shares)	(346,001)	(346,001)

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Total stockholders' equity	8,462,726	8,401,586
Total liabilities and stockholders' equity	\$9,896,036	\$10,400,954

The accompanying notes are an integral part of the consolidated financial statements.

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Mexco Energy Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2018	2017	2018	2017
Operating revenues:				
Oil and gas	\$701,246	\$610,451	\$1,436,599	\$1,261,893
Other	13,262	8,637	26,920	24,879
Total operating revenues	714,508	619,088	1,463,519	1,286,772
Operating expenses:				
Production	250,578	254,842	509,513	564,705
Accretion of asset retirement obligations	3,771	8,308	7,406	16,557
Depreciation, depletion, and amortization	205,583	285,507	421,658	596,765
General and administrative	226,169	232,869	475,207	539,528
Total operating expenses	686,101	781,526	1,413,784	1,717,555
Operating income (loss)	28,407	(162,438)	49,735	(430,783)
Other income (expenses):				
Interest income	70	2	83	11
Interest expense	(6,446)	(26,734)	(13,367)	(53,950)
Net other expense	(6,376)	(26,732)	(13,284)	(53,939)
Income (loss) before income taxes	22,031	(189,170)	36,451	(484,722)
Income tax	-	-	-	-
Net income (loss)	\$22,031	\$(189,170)	\$36,451	\$(484,722)
Income (loss) per common share:				
Basic:	\$0.01	\$(0.09)	\$0.02	\$(0.24)
Diluted:	\$0.01	\$(0.09)	\$0.02	\$(0.24)
Weighted average common shares outstanding:				
Basic:	2,040,052	2,037,266	2,038,659	2,037,266
Diluted:	2,040,052	2,037,266	2,038,659	2,037,266

The accompanying notes are an integral part of the consolidated financial statements.

Mexco Energy Corporation and Subsidiaries**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(Unaudited)

	Common Stock Par Value	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at April 1, 2018	\$1,052,133	\$(346,001)	\$7,265,601	\$429,483	\$ 8,401,586
Net income	-	-	-	36,451	36,451
Issuance of stock through options exercised	1,450	-	16,791	-	18,241
Stock based compensation	-	-	6,448	-	6,448
Balance at September 30, 2018	\$1,053,583	\$(346,001)	\$7,288,840	\$466,304	\$ 8,462,726

	Common Stock Par Value	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at April 1, 2017	\$1,052,133	\$(346,001)	\$7,244,848	\$751,342	\$ 8,702,322
Net loss	-	-	-	(484,722)	(484,722)
Stock based compensation	-	-	13,775	-	13,775
Balance at September 30, 2017	\$1,052,133	\$(346,001)	\$7,258,623	\$266,620	\$ 8,231,375

SHARE ACTIVITY

Common stock shares, issued:

Balance at April 1, 2018	2,104,266
Issued	2,900
Balance at September 30, 2018	2,107,166

Common stock shares, held in treasury:

Balance at April 1, 2018	(67,000)
Acquisitions	-
Balance at September 30, 2018	(67,000)

Common stock shares, outstanding at September 30, 2018 2,040,166

The accompanying notes are an integral part of the consolidated financial statements.

Mexco Energy Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended September 30,

(Unaudited)

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$36,451	\$(484,722)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	6,448	13,775
Depreciation, depletion and amortization	421,658	596,765
Accretion of asset retirement obligations	7,406	16,557
Changes in operating assets and liabilities:		
Decrease in accounts receivable	341,509	62,991
Decrease (increase) in prepaid expenses	10,398	(139)
(Decrease) increase in accounts payable and accrued expenses	(323,396)	127,737
Settlement of asset retirement obligations	(1,937)	(6,529)
Net cash provided by operating activities	498,537	326,435
Cash flows from investing activities:		
Additions to oil and gas properties	(438,621)	(481,005)
Drilling refund	-	19,500
Proceeds from sale of oil and gas properties and equipment	31,876	549,507
Change in note receivable	(3,783)	-
Net cash (used in) provided by investing activities	(410,528)	88,002
Cash flows from financing activities:		
Proceeds from exercise of stock options	18,241	-
Reduction of long-term debt	(250,000)	(432,000)
Net cash used in financing activities	(231,759)	(432,000)
Net decrease in cash and cash equivalents	(143,750)	(17,563)
Cash and cash equivalents at beginning of period	492,610	73,451
Cash and cash equivalents at end of period	\$348,860	\$55,888
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$14,447	\$54,884
Non-cash investing and financing activities:		
Asset retirement obligations	\$4,697	\$4,167

The accompanying notes are an integral part of the consolidated financial statements.

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Mexco Energy Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations

Mexco Energy Corporation (a Colorado corporation) and its wholly owned subsidiaries, Forman Energy Corporation (a New York corporation), Southwest Texas Disposal Corporation (a Texas corporation) and TBO Oil & Gas, LLC (a Texas limited liability company) (collectively, the “Company”) are engaged in the exploration, development and production of natural gas, crude oil, condensate and natural gas liquids (“NGLs”). Most of the Company’s oil and gas interests are centered in the Permian Basin of West Texas; however, the Company owns producing properties and undeveloped acreage in thirteen states. Although the Company’s oil and gas interests predominately are operated by others, the Company operates three wells on a lease in which it owns a 100% working interest.

2. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Mexco Energy Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions associated with the consolidated operations have been eliminated.

Estimates and Assumptions. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”), management is required to make informed judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates are used in determining proved oil and gas reserves. Although management believes its estimates and assumptions are reasonable, actual results may differ materially from those estimates. The estimate of the Company’s oil and natural gas reserves, which is used to compute depreciation, depletion, amortization and impairment of oil and gas properties, is the most significant of the estimates and assumptions that affect these reported results.

Interim Financial Statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position of the Company as of September 30, 2018, and the results of its operations and cash flows for the interim periods ended September 30, 2018 and 2017. The consolidated financial statements as of September 30, 2018 and for the three and six month periods ended September 30, 2018 and 2017 are unaudited. The consolidated balance

sheet as of March 31, 2018 was derived from the audited balance sheet filed in the Company's 2018 annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The results of operations for the periods presented are not necessarily indicative of the results to be expected for a full year. The accounting policies followed by the Company are set forth in more detail in Note 2 of the "Notes to Consolidated Financial Statements" in the Form 10-K. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. However, the disclosures herein are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Form 10-K.

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update are effective for fiscal years and interim periods within those years beginning after December 15, 2017 and supersedes any previous revenue recognition guidance. On April 1, 2018 we adopted ASU 2014-09 using the modified retrospective approach which only applies to contracts that were not completed as of the date of initial application. Recognition of revenue involves a five step approach including identifying the contract, identifying the separate performance obligations, determining the transaction price, allocating the price to the performance obligations and recognizing revenue as the obligations are satisfied.

Adoption of this new standard did not have an impact on the Company’s financial statements. When comparing the Company’s historical revenue recognition to the newly applied revenue recognition under Topic 606, there was no change to the amount or timing of revenue recognized. Therefore, no quantitative adjustment was required to be made to the prior periods presented in the unaudited consolidated financial statements after the adoption. Upon adoption the Company had not altered its existing information technology and internal controls outside of the contract review processes in order to identify impacts of future revenue contracts the Company may enter into.

Accounting Policy - Revenues from our royalty and non-operated working interest properties are recorded under the cash receipts approach as directly received from the remitters’ statement accompanying the revenue check. Since the revenue checks are generally received two to four months after the production month, the Company accrues for revenue earned but not received by estimating production volumes and product prices. Any identified differences between its revenue estimates and actual revenue received historically have not been significant.

The Company does not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption in accordance with ASC 606. The exemption, as described in ASC 606-10-50-14(a), applies to variable consideration that is recognized as control of the product is transferred to the customer. Since each unit of product represents a separate performance obligation, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

3. Asset Retirement Obligations

The Company’s asset retirement obligations (“ARO”) relate to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. The fair value of a liability for an ARO is recorded in the period in which it is incurred, discounted to its present value using the credit adjusted risk-free interest rate, and a corresponding amount capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted each period, and the capitalized cost is depreciated over the useful life of the related asset. The ARO is included on the consolidated balance sheets with the current portion being included in the accounts payable and other accrued expenses.

The following table provides a rollforward of the AROs for the first six months of fiscal 2019:

Carrying amount of asset retirement obligations as of April 1, 2018	\$862,553
Liabilities incurred	4,697
Liabilities settled	(7,395)
Accretion expense	7,406
Carrying amount of asset retirement obligations as of September 30, 2018	867,261

Less: Current portion	10,000
Non-Current asset retirement obligation	\$857,261

4. Stock-based Compensation

The Company recognized stock-based compensation expense of \$3,006 and \$5,050 in general and administrative expense in the Consolidated Statements of Operations for the three months ended September 30, 2018 and 2017, respectively. Stock-based compensation expense recognized for the six months ended September 30, 2018 and 2017 was \$6,448 and \$13,775, respectively. The total cost related to non-vested awards not yet recognized at September 30, 2018 totals approximately \$128,219 which is expected to be recognized over a weighted average of 3.95 years.

During the six months ended September 30, 2018, the Compensation Committee of the Board of Directors approved and the Company granted 40,000 stock options exercisable at \$4.84 per share. During the six months ended September 30, 2017, no stock options were granted. These options are exercisable at a price not less than the fair market value of the stock at the date of grant, have an exercise period of ten years and generally vest over four years.

Included in the following table is a summary of the grant-date fair value of stock options granted and the related assumptions used in the Binomial models for stock options granted during the six months ended September 30, 2018 and 2017. All such amounts represent the weighted average amounts.

	Six Months Ended September 30	
	2018	2017
Grant-date fair value	\$3.25	-
Volatility factor	55.26%	-
Dividend yield	-	-
Risk-free interest rate	2.91 %	-
Expected term (in years)	6.25	-

The following table is a summary of activity of stock options for the six months ended September 30, 2018:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life in Years
Outstanding at April 1, 2018	148,600	\$ 6.54	4.34
Granted	40,000	4.84	
Exercised	(2,900)	6.29	
Forfeited or Expired	-	-	
Outstanding at September 30, 2018	185,700	\$ 6.18	5.18
Vested at September 30, 2018	145,700	\$ 6.55	3.87
Exercisable at September 30, 2018	145,700	\$ 6.55	3.87

During the six months ended September 30, 2018, stock options covering 2,900 shares were exercised with a total intrinsic value of \$6,575. The Company received proceeds of \$18,241 from these exercises. During the six months ended September 30, 2017, no stock options were exercised.

No forfeiture rate is assumed for stock options granted to directors or employees due to the forfeiture rate history of these types of awards. There were no stock options forfeited or expired during the six months ended September 30, 2018 and 2017.

Outstanding options at September 30, 2018 expire between August 2020 and September 2028 and have exercise prices ranging from \$4.84 to \$7.00.

5. Credit Facility

The Company has a loan agreement with Bank of America, N.A. (the “Agreement”) (“Bank”), which provided for a credit facility of \$5,570,000 with no monthly commitment reductions and a borrowing base to be evaluated on July 30 and January 1 of each year or at any additional time in Bank’s discretion. The borrowing base also resets to the extent the Company sells or otherwise disposes of any of its oil and gas properties as the Company is required to pay 100% of such net proceeds to the lender resulting in a permanent reduction of the borrowing base unless prior approval by Bank states otherwise. The borrowing base was evaluated on July 31, 2018 and set at \$525,000.

The Agreement was renewed eleven times with the eleventh amendment effective as of March 8, 2017 with a maturity date of November 30, 2020. Under such renewal agreement, interest on the facility accrues at an annual rate equal to the British Bankers Association London Interbank Offered Rate (“BBA LIBOR”) daily floating rate, plus 3.0 percentage points, which was 5.22% on September 30, 2018. Interest on the outstanding amount under the credit agreement is payable monthly. In addition, the Company will pay an unused commitment fee in an amount equal to ½ of 1 percent (.5%) times the daily average of the unadvanced amount of the commitment. The unused commitment fee is payable quarterly in arrears on the last day of each calendar quarter and is included in the consolidated statements of operations under the caption “General and administrative” expenses. Availability of this line of credit at September 30, 2018 was \$50,000. No principal payments are anticipated to be required through November 30, 2020. Amounts borrowed under the Agreement are collateralized by the common stock of the Company’s wholly owned subsidiaries and substantially all of the Company’s oil and gas properties.

The Agreement contains customary covenants for credit facilities of this type including limitations on change in control, disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the Agreement and requires minimum earnings before interest, taxes, depreciation and amortization (“EBITDA”) of \$650,000 for each trailing four fiscal quarters and minimum interest coverage ratio (EBITDA/Interest Expense) of 2.00 to 1.00 for each quarter. The Company is in compliance with all covenants as of September 30, 2018 and believes it will remain in compliance for the current fiscal year.

The amended Agreement allows for up to \$500,000 of the facility to be used for outstanding letters of credit. As of September 30, 2018, one letter of credit for \$25,000, in lieu of plugging bond with the Texas Railroad Commission (“TRRC”) covering the properties the Company operates is outstanding under the facility. This letter of credit renews annually. The Company will pay a fee in an amount equal to 1 percent (1.0%) per annum of the outstanding undrawn amount of each standby letter of credit, payable monthly in arrears, on the basis of the face amount outstanding on the day the fee is calculated.

In addition, this Agreement prohibits the Company from paying cash dividends on its common stock. The Agreement does grant the Company permission to enter into hedge agreements however, it is under no obligation to do so.

The balance outstanding on the line of credit as of September 30, 2018 was \$450,000. The following table is a summary of activity on the Bank of America, N.A. line of credit for the six months ended September 30, 2018:

	Principal
Balance at April 1, 2018:	\$700,000
Borrowings	-
Repayments	(250,000)
Balance at September 30, 2018:	\$450,000

Subsequently, the balance outstanding on the line of credit as of November 8, 2018 was \$375,000 which increased availability of the line of credit to \$125,000.

6. Income Taxes

A valuation allowance for deferred tax assets, including net operating losses, is recognized when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. To assess that likelihood, we use estimates and judgment regarding our future taxable income, and we consider the tax consequences in the jurisdiction where such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies as well as the current and forecasted business economics of our industry.

Based on the material write-downs of the carrying value of our oil and natural gas properties during fiscal 2016, we are in a net deferred tax asset position as of September 30, 2018. Our deferred tax asset is \$1,241,320 as of September 30, 2018 with a valuation amount of \$1,241,320. We believe it is more likely than not that these deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate whether sufficient

future taxable income will be generated to permit the use of deferred tax assets. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as future expected growth.

7. Related Party Transactions

Related party transactions for the Company relate to shared office expenditures in addition to administrative and operating expenses paid on behalf of the principal stockholder. The total billed to and reimbursed by the stockholder for the quarters ended September 30, 2018 and 2017 was \$10,602 and \$9,649, respectively. The total billed to and reimbursed by the stockholder for the six months ended September 30, 2018 and 2017 was \$27,021 and \$18,481, respectively.

8. Income (Loss) Per Common Share

The Company's basic net income (loss) per share has been computed based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share assumes the exercise of all stock options having exercise prices less than the average market price of the common stock during the period using the treasury stock method and is computed by dividing net income (loss) by the weighted average number of common shares and dilutive potential common shares (stock options) outstanding during the period. In periods where losses are reported, the weighted-average number of common shares outstanding excludes potential common shares, because their inclusion would be anti-dilutive.

The following is a reconciliation of the number of shares used in the calculation of basic and diluted net income (loss) per share for the three and six month periods ended September 30, 2018 and 2017.

	Three Months Ended September 30		Six Months Ended September 30	
	2018	2017	2018	2017
Net income (loss)	\$22,031	\$(189,170)	\$36,451	\$(484,722)
Shares outstanding:				
Weighted avg. shares outstanding – basic	2,040,052	2,037,266	2,038,659	2,037,266
Effect of assumed exercise of dilutive stock options	-	-	-	-
Weighted avg. shares outstanding – dilutive	2,040,052	2,037,266	2,038,659	2,037,266
Income (loss) per common share:				
Basic	\$0.01	\$(0.09)	\$0.02	\$(0.24)
Diluted	\$0.01	\$(0.09)	\$0.02	\$(0.24)

For the three and six months ended September 30, 2018, 185,700 potential common shares relating to stock options were excluded in the computation of diluted net income per share because the price of the options was greater than the average market price of the common shares and therefore, the effect would be anti-dilutive. Anti-dilutive stock options have a weighted average exercise price of \$6.18 at September 30, 2018.

Due to a net loss for the for the three and six months ended September 30, 2017, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, references to the "Company", "Mexco", "we", "us" or "our" mean Mexco Energy Corporation and its consolidated subsidiaries.

Cautionary Statements Regarding Forward-Looking Statements. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements regarding our plans, beliefs or current expectations and may be signified by the words "could", "should", "expect", "project", "estimate", "believe", "anticipate", "intend", "budget", "plan", "forecast", "predict" and other similar expressions. Forward-looking statements appear throughout this Form 10-Q with respect to, among other things: profitability; planned capital expenditures; estimates of oil and gas production; future project dates; estimates of future oil and gas prices; estimates of oil and gas reserves; our future financial condition or results of operations; and our business strategy and other plans and objectives for future operations. Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results to differ materially from those contained in any forward-looking statement.

While we have made assumptions that we believe are reasonable, the assumptions that support our forward-looking statements are based upon information that is currently available and is subject to change. All forward-looking statements in this Form 10-Q are qualified in their entirety by the cautionary statement contained in this section. We do not undertake to update, revise or correct any of the forward-looking information. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Form 10-K.

Liquidity and Capital Resources. Historically, we have funded our operations, acquisitions, exploration and development expenditures from cash generated by operating activities, bank borrowings, sales of non-core properties and issuance of common stock. Our primary financial resource is our base of oil and gas reserves. We have pledged our producing oil and gas properties to secure our revolving line of credit. We do not have any delivery commitments to provide a fixed and determinable quantity of its oil and gas under any existing contract or agreement.

Due to depressed commodity price environment, we are applying financial discipline to all aspects of our business. In order to meet obligations, we may continue to sell non-core assets.

Our long term strategy is on increasing profit margins while concentrating on obtaining reserves with low cost operations by acquiring and developing oil and gas properties with potential for long-lived production. We focus our efforts on the acquisition of royalties and working interests and non-operated properties in areas with development potential.

For the first six months of fiscal 2019, cash flow from operations was \$498,537, a 53% increase when compared to the corresponding period of fiscal 2018 as a result of a decrease in accounts payable and accrued expenses partially offset by an increase in oil and gas revenues. Cash of \$250,000 was used to reduce the line of credit, net cash of \$410,528 was used for additions to oil and gas properties and cash of \$18,241 was received from proceeds from the exercise of employee stock options. Accordingly, net cash decreased \$143,750, leaving cash and cash equivalents on hand of \$348,860 as of September 30, 2018.

At September 30, 2018, we had working capital of \$779,729 compared to working capital of \$925,618 at March 31, 2018, a decrease of \$145,889 primarily due to a decrease in cash for property development as described below.

Oil and Natural Gas Property Development. In addition to an indeterminate number of wells to be drilled by other operators on Mexco's royalty interests, the Company currently expects to participate in the drilling and completion of approximately 50 horizontal wells at an estimated aggregate cost of approximately \$1,300,000 for the fiscal year ending March 31, 2019. The operators of these wells include Concho Resources, Inc., Marathon Oil Company, Mewbourne Oil Company, XTO Energy, Inc. and others.

During the first six months of fiscal 2019, Mexco participated with various percentage interests in the drilling of 32 horizontal wells with aggregate costs of approximately \$540,000. Of these wells, 26 are in the Delaware Basin located in the western portion of the Permian Basin in Eddy and Lea Counties, New Mexico and 6 are located in Grady County, Oklahoma.

The first 5 of these wells have been completed with initial average production rates of 1,552 barrels of oil, 2,075 barrels of water and 2,067,000 cubic feet of gas per day, or 1,896 barrels of oil equivalent per day. Mexco's working interest in these wells is approximately 0.6%.

During the first six months of fiscal 2019, the Company received approximately \$33,000 in cash from a sale of joint venture leasehold acreage and marginal producing working interest wells in North Dakota and Montana.

We are participating in other projects and are reviewing projects in which we may participate. The cost of such projects would be funded, to the extent possible, from existing cash balances, cash flow from operations and sales of non-core properties.

Crude oil and natural gas prices generally increased during the last year. The volatility of the energy markets makes it extremely difficult to predict future oil and natural gas price movements with any certainty. For example in the last twelve months, the NYMEX WTI posted price for crude oil has ranged from a low of \$45.75 per bbl in October 2017 to a high of \$70.75 per bbl in July 2018. The Henry Hub Spot Market Price (“Henry Hub”) for natural gas has ranged from a low of \$2.49 per MMBtu in February 2018 to a high of \$6.24 per MMBtu in January 2018. On September 30, 2018 the WTI posted price for crude oil was \$69.75 per bbl and the Henry Hub spot price for natural gas was \$3.01 per MMBtu. See Results of Operations below for realized prices.

Contractual Obligations. We have no off-balance sheet debt or unrecorded obligations and have not guaranteed the debt of any other party. The following table summarizes our future payments we are obligated to make based on agreements in place as of September 30, 2018:

	Payments due in:			
	Total	less than 1 year	1 - 3 years	over 3 years
Contractual obligations:				
Secured bank line of credit (1)	\$450,000	\$-	\$450,000	\$ -
Leases (2)	\$130,755	\$48,212	\$82,343	\$ -

These amounts represent the balances outstanding under the bank line of credit. This repayment assumes that (1) interest will be paid on a monthly basis, no additional funds will be drawn and does not include estimated interest of \$23,471 less than 1 year, and \$27,383 1-3 years.

The lease amount represents the monthly rent amount for our principal office space in Midland, Texas under one (2) three year lease agreement effective May 15, 2018. The total obligation for the remainder of the lease is \$173,292 which includes \$42,537 billed to and reimbursed by our majority shareholder for his portion of the shared office space.

Results of Operations – Three Months Ended September 30, 2018 Compared to Three Months Ended

September 30, 2017. There was net income of \$22,031 for the quarter ended September 30, 2018 compared to a net loss of \$189,170 for the quarter ended September 30, 2017. This was a result of a decrease in operating expenses and an increase in operating revenue that is further explained below.

Oil and gas sales. Revenue from oil and gas sales was \$701,246 for the second quarter of fiscal 2019, a 15% increase from \$610,451 for the same period of fiscal 2018. This resulted from an increase in oil and gas prices and an increase in oil production partially offset by a decrease in gas production.

	2018	2017	% Difference	
<i>Oil:</i>				
Revenue	\$495,231	\$382,006	29.6	%
Volume (bbls)	8,493	8,470	0.3	%
Average Price (per bbl)	\$58.31	\$45.10	29.3	%
<i>Gas:</i>				
Revenue	\$206,015	\$228,445	(9.8	%)
Volume (mcf)	73,496	84,120	(12.6	%)
Average Price (per mcf)	\$2.80	\$2.72	2.9	%

Production and exploration. Production costs were \$250,578 for the second quarter of fiscal 2019, a 2% decrease from \$254,842 for the same period of fiscal 2018. This is primarily the result of a decrease in expenses due to the sale of our operated properties in Loving County, Texas.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense was \$205,583 for the second quarter of fiscal 2019, a 28% decrease from \$285,507 for the same period of fiscal 2018, primarily due to a decrease in future development costs, gas production and full cost pool amortization base partially offset by a decrease in oil and gas reserves.

General and administrative expenses. General and administrative expenses were \$226,169 for the second quarter of fiscal 2019, a 3% decrease from \$232,869 for the same period of fiscal 2018. This was primarily due to a decrease in accounting fees partially offset by an increase in rent expense related to our office relocation, insurance and legal fees.

Interest expense. Interest expense was \$6,446 for the second quarter of fiscal 2019, a 76% decrease from \$26,734 for the same period of fiscal 2018, due to a decrease in borrowings partially offset by an increase in interest rate.

Income taxes. There was no income tax expense for the three months ended September 30, 2018 and for the three months ended September 30, 2017. The effective tax rate for the three months ended September 30, 2018 and September 30, 2017 was 0%. We are in a net deferred tax asset position and believe it is more likely than not that these deferred tax assets will not be realized.

Results of Operations – Six Months Ended September 30, 2018 Compared to Six Months Ended September 30, 2017. For the six months ended September 30, 2018, there was net income of \$36,451 compared to a net loss of \$484,722 for the six months ended September 30, 2017. This was a result of a decrease in operating expenses and an increase operating revenues that is further explained below.

Oil and gas sales. Revenue from oil and gas sales was \$1,436,599 for the six months ended September 30, 2018, a 14% increase from \$1,261,893 for the same period of fiscal 2018. This resulted from an increase in oil prices partially offset by a decrease in gas prices and a decrease in oil and gas production.

	2018	2017	% Difference	
Oil:				
Revenue	\$1,065,294	\$805,421	32.3	%
Volume (bbls)	17,880	17,969	(0.5)	%
Average Price (per bbl)	\$59.58	\$44.82	32.9	%
Gas:				
Revenue	\$371,305	\$456,472	(18.7)	%
Volume (mcf)	146,870	174,016	(15.6)	%
Average Price (per mcf)	\$2.53	\$2.62	(3.4)	%

Production and exploration. Production costs were \$509,513 for the six months ended September 30, 2018, a 10% decrease from \$564,705 for the six months ended September 30, 2017. This decrease is primarily the result of XTO Energy, Inc. incorrectly providing us a refund for marketing and transportation fees of approximately \$67,000 during this same period last year.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense was \$421,658 for the six months ended September 30, 2018, a 29% decrease from \$596,765 for the six months ended September 30, 2017, due to a decrease in oil and gas production, future development costs and full cost pool amortization base partially offset by a decrease in oil and gas reserves.

General and administrative expenses. General and administrative expenses were \$475,207 for the six months ended September 30, 2018, a 12% decrease from \$539,528 for the six months ended September 30, 2017. This was primarily due to a decrease in accounting fees partially offset by expenditures due to our office relocation.

Interest expense. Interest expense was \$13,367 for the six months ended September 30, 2018, a 75% decrease from \$53,950 for the same period fiscal 2018 due to an decrease in borrowings partially offset by an increase in interest rate.

Income taxes. There was no income tax expense for the six months ended September 30, 2018 and for the six months ended September 30, 2017. The effective tax rate for the six months ended September 30, 2018 and September 30, 2017 was 0%. We are in a net deferred tax asset position and believe it is more likely than not that these deferred tax assets will not be realized.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary sources of market risk for us include fluctuations in commodity prices and interest rates. All of our financial instruments are for purposes other than trading.

Interest Rate Risk. At September 30, 2018, we had an outstanding loan balance of \$450,000 under our revolving credit agreement, which bears interest at an annual rate equal to the BBA LIBOR daily floating rate, plus 3.0 percentage points. If the interest rate on our bank debt increases or decreases by one percentage point our annual pretax income would change by \$4,500 based on the outstanding balance at September 30, 2018.

Credit Risk. Credit risk is the risk of loss as a result of nonperformance by other parties of their contractual obligations. Our primary credit risk is related to oil and gas production sold to various purchasers and the receivables are generally not collateralized. At September 30, 2018, our largest credit risk associated with any single purchaser was \$156,465 or 39% of our total oil and gas receivables. We have not experienced any significant credit losses.

Energy Price Risk. Our most significant market risk is the pricing for natural gas and crude oil. Our financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. Prices for oil and natural gas fluctuate widely. We cannot predict future oil and natural gas prices with any certainty. Historically, the markets for oil and gas have been volatile, and they are likely to continue to be volatile.

Prices for crude oil and natural gas have been adversely effected by temporary pipeline capacity constraints primarily in the Permian Basin. We are unable to predict exactly how long this limitation will continue.

Factors that can cause price fluctuations include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels and overall political and economic conditions in oil producing countries.

Declines in oil and natural gas prices will materially adversely affect our financial condition, liquidity, ability to obtain financing and operating results. Changes in oil and gas prices impact both estimated future net revenue and the estimated quantity of proved reserves. Any reduction in reserves, including reductions due to price fluctuations, can reduce the borrowing base under our credit facility and adversely affect the amount of cash flow available for capital expenditures and our ability to obtain additional capital for our acquisition, exploration and development activities. In addition, a noncash write-down of our oil and gas properties could be required under full cost accounting rules if prices declined significantly, even if it is only for a short period of time. Lower prices may also reduce the amount of crude oil and natural gas that can be produced economically. Thus, we may experience material increases or decreases in reserve quantities solely as a result of price changes and not as a result of drilling or well performance.

Similarly, any improvements in oil and gas prices can have a favorable impact on our financial condition, results of operations and capital resources. Oil and natural gas prices do not necessarily fluctuate in direct relationship to each other. If the average oil price had increased or decreased by ten dollars per barrel for the first six months of fiscal 2019, our pretax income would have changed by \$178,800. If the average gas price had increased or decreased by one dollar per mcf for the first six months of fiscal 2019, our pretax income would have changed by \$146,870.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis. At the end of the period covered by this report, our principal executive officer and principal financial officer reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e). Based on such evaluation, such officers concluded that, as of September 30, 2018, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting. No changes in our internal control over financial reporting occurred during the six months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. We are not aware of any legal or governmental proceedings against us, or contemplated to be brought against us, under various environmental protection statutes or other regulations to which we are subject.

Item 1A. Risk Factors

There have been no material changes to the information previously disclosed in Item 1A. “Risk Factors” in our 2018 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of the Chief Executive Officer of Mexco Energy Corporation

31.2 Certification of the Chief Financial Officer of Mexco Energy Corporation

32.1 Certification of the Chief Executive Officer and Chief Financial Officer of Mexco Energy Corporation pursuant to 18 U.S.C. §1350

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEXCO ENERGY CORPORATION
(Registrant)

Dated: November 8, 2018 /s/ *Nicholas C. Taylor*
Nicholas C. Taylor
Chairman of the Board and Chief Executive Officer

Dated: November 8, 2018 /s/ *Tamala L. McComic*
Tamala L. McComic
President, Chief Financial Officer, Treasurer and Assistant Secretary

