

# Epsilon Energy Ltd. Announces Full Year 2020 Results

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HOUSTON, March 25, 2021 - [Epsilon Energy Ltd.](#) ("Epsilon") (NASDAQ: EPSN) today reported its financial results for the fourth quarter and full-year ended December 31, 2020.

Epsilon's highlights for 2020 and material subsequent events following year end through the date of this release include:

- Total Revenues of \$24.4 million for the year as compared to \$26.7 million for the same period of 2019.
- Net after tax income of \$0.9 million for the year as compared to \$8.7 million for the same period of 2019.
- Adjusted EBITDA of \$15.7 million for the year as compared to \$18.0 million for the same period of 2019.
- Average net natural gas prices of \$1.36/Mcf for the year as compared to \$2.18/Mcf for the same period in 2019.
- Cash and cash equivalents at the end of 2020 was \$13.8 million as compared to \$14.6 million at the end of 2019.
- Total estimated proved natural gas reserves of 88.7 Bcf as of December 31, 2020 after 2020 production of 11.2 Bcf, and 371.3 Mbbbl of proved oil and condensate reserves after 2020 production of 6.5 Mbbbl.
- Gathered and delivered 69.5 Bcf gross (24.3 Bcf net to Epsilon's interest) during the year, or 190 MMcf/d through the Auburn Gas Gathering System.
- Marcellus net gas production averaged 30.0 MMcf/d for the year as compared to 21.4 MMcf/d net gas production in 2019. Net gas production as of this release is approximately 24.6 MMcf/d (or 28.3 MMcf/d of working interest gas production) Epsilon has 9 gross (1.84 Net) wells offline for adjacent operations. The shut-in wells (1.84 Net) were producing, in aggregate, slightly more than 1.75 MMcf/d net (or 2.0 MMcf/d working interest gas production) prior to shut-in to accommodate current activity.
- Hedged 4.0 Bcf of Q2 2021 - Q1 2022 natural gas production via Henry Hub costless collars with an average floor of \$2.79 and an average ceiling of \$3.29.

Michael Raleigh, CEO, commented, "Epsilon managed to achieve excellent results in 2020 despite a very challenged natural gas price environment and increased our produced volumes by 40% over the prior period in 2019. Natural gas prices rebounded in the first two months of 2021, but have subsequently weakened as natural gas supply appears to be adequate in the short term. We expect Northeast natural gas production to remain flat for the remainder of 2021 which should be supportive of more constructive prices as natural gas storage levels are currently 7% below the five year average and 21% below 2020 levels.

For the first quarter of 2021 we anticipate net gas production of 26- 28 MMcf/d (30 - 32 MMcfpd gross working interest production) and \$4.7 - 5.3 million in EBITDA. Epsilon participated with the operator in the drilling of one gross well (.22 Net) in the Auburn Gas Gathering System during the first quarter. It is currently planned for this well to be completed and turned to production in the third quarter. In late 2020, Epsilon filed for and received four well permits from the PA DEP. Epsilon intends to pursue its plans to develop these locations as expeditiously as possible."

## Financial and Operating Results

	Twelve months ended December 31,	
	2020	2019
Revenue by product - total period (\$000)		
Natural gas revenue (\$000)	\$ 15,207	\$ 16,945
Volume (MMcfe)	11,204	7,757
Avg. Price (\$/Mcf)	\$ 1.36	\$ 2.18
Exit Rate (MMcfepd)	32.8	30.5
Oil and other liquids revenue (\$000)	\$ 338	\$ 425
Volume (MBOE)	15	15
Avg. Price (\$/Bbl)	\$ 22.66	\$ 29.24
Midstream gathering system revenue (\$000)	\$ 8,880	\$ 9,320
Total Revenue	\$ 24,425	\$ 26,690

### Capital Expenditures

Epsilon's development capital expenditures were \$3.8 million for the year ended December 31, 2020. A total of \$1.3 million was spent on lagging completion costs during 2020 for four gross (1.18 Net) wells developed in 2019 in Pennsylvania. An additional \$1.7 million was spent participating in the drilling and completing of nine gross (0.22 Net) wells during 2020 in Pennsylvania. The Auburn Gas Gathering system required maintenance capital of \$0.7 million. Remaining capital expenditures were related to lease acquisition, permitting new wells to be drilled in Pennsylvania and drill planning.

During the first quarter of 2021, Epsilon participated with the operator in the drilling of one extended lateral well (.22 Net) in the Auburn GGS targeting both the upper and lower Marcellus. The well has been drilled to target depth and is awaiting completion operations. In addition, Epsilon has received four well permits from the PA DEP and is proceeding with well planning for the development of these wells as expeditiously as possible.

### Fourth Quarter Results

Epsilon generated revenues of \$5.9 million for the three months ended December 31, 2020 compared to \$6.8 million for the three months ended December 31, 2019. The Company's net revenue interest production was 2.60 Bcf in the fourth quarter primarily in Pennsylvania.

Realized natural gas prices averaged \$1.45 per Mcf in the fourth quarter of 2020. Operating expenses for Marcellus Upstream operations in the fourth quarter were \$1.6 million.

The Auburn Gas Gathering system delivered 15.3 Bcf of natural gas during the quarter as compared to 22.7 Bcf during the fourth quarter of 2019. Primary gathering volumes decreased 8.9% quarter over quarter from 14.6 Bcf to 13.3 Bcf. Imported cross-flow volumes decreased 75% from 8.0 Bcf to 2.0 Bcf.

Epsilon reported a net after tax income of \$1.4 million attributable to shareholders or \$0.06 per basic and diluted shares outstanding for the three months ended December 31, 2020, compared to net income of \$2.0 million, and \$0.08 per basic and diluted shares outstanding for the three months ended December 31, 2019.

For the three months ended December 31, 2020, Epsilon's Adjusted Earnings Before Interest, Income Taxes, Depreciation, Amortization ("Adjusted EBITDA") was \$4.0 million as compared to \$4.5 million for the three months ended December 31, 2019. The decrease in Adjusted EBITDA was primarily due to the decrease in upstream revenue due to the lower natural gas prices.

### Adjusted EBITDA

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.

#### About Epsilon

[Epsilon Energy Ltd.](http://www.epsilonenergy.com) is a North American on-shore focused independent exploration and production company engaged in the acquisition, development, gathering and production of oil and gas reserves. Our primary area of operation is the Marcellus basin in northeast Pennsylvania. Our assets are concentrated in areas with known hydrocarbon resources, which are conducive to multi-well, repeatable drilling programs. For more information, please visit [www.epsilonenergy.com](http://www.epsilonenergy.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.

The reserves and associated future net revenue information set forth in this news release are estimates only. In general, estimates of oil and natural gas reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as production rates, ultimate reserves recovery, timing and amount of capital expenditures, ability to transport production, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the oil and natural gas reserves attributable to any particular group of properties, as well as the classification of such reserves and estimates of future net revenues associated with such reserves prepared by different engineers (or by the same engineers at different times) may vary. The actual reserves of the Company may be greater or less than those calculated. In addition, the Company's actual production, revenues, development and operating expenditures will vary from estimates thereof and such variations could be material.

Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future. There is no assurance that forecast price and cost assumptions will be attained and variances could be material.

Proved reserves are those reserves which are most certain to be recovered. There is at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves. Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved,

probable) to which they are assigned. Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation. The estimated future net revenues contained in this news release do not necessarily represent the fair market value of the Company's reserves.

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Audited Consolidated Statements of Operations  
(All amounts stated in US\$)

	Year ended December 31,	
	2020	2019
Revenues from contracts with customers:		
Gas, oil, NGLs and condensate revenue	\$ 15,545,552	\$ 17,369,963
Gas gathering and compression revenue	8,879,728	9,320,373
Total revenue	24,425,280	26,690,336
Operating costs and expenses:		
Lease operating expenses	8,052,471	6,571,394
Gathering system operating expenses	429,749	1,337,409
Development geological and geophysical expenses	12,910	83,748
Depletion, depreciation, amortization, and accretion	9,557,891	7,387,681
Impairment of proved properties	1,760,000	-
Gain on sale of property	-	(1,375,000 )
Bad debt expense	-	-
General and administrative expenses:		
Stock based compensation expense	849,631	510,460
Other general and administrative expenses	4,740,332	3,989,540
Total operating costs and expenses	25,402,984	18,505,232
Operating income (loss)	(977,704 )	8,185,104
Other income (expense):		
Interest income	43,540	158,879
Interest expense	(114,515 )	(115,356 )
Gain on derivative contracts	2,503,655	4,246,057
Other income (expense)	(4,385 )	804
Other income, net	2,428,295	4,290,384
Net income before income tax expense	1,450,591	12,475,488
Income tax expense	575,420	3,777,489
NET INCOME	\$ 875,171	\$ 8,697,999
Currency translation adjustments	10,169	12,548

NET COMPREHENSIVE INCOME	\$ 885,340	\$ 8,710,547
Net income per share, basic	\$ 0.03	\$ 0.32
Net income per share, diluted	\$ 0.03	\$ 0.32
Weighted average number of shares outstanding, basic	25,122,501	27,129,430
Weighted average number of shares outstanding, diluted	25,122,501	27,129,430

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Audited Consolidated Balance Sheets  
(All amounts stated in US\$)

	December 31, 2020
<b>ASSETS</b>	
<i>Current assets</i>	
Cash and cash equivalents	\$ 13,270,913
Accounts receivable	3,917,288
Fair value of derivatives	-
Prepaid income taxes	89,285
Other current assets	500,583
Total current assets	17,778,069
<i>Non-current assets</i>	
Property and equipment:	
Oil and gas properties, successful efforts method	
Proved properties	133,902,723
Unproved properties	21,552,063
Accumulated depletion, depreciation, amortization and impairment	(98,200,111)
Total oil and gas properties, net	57,254,675
Gathering system	42,202,644
Accumulated depletion, depreciation, amortization and impairment	(32,101,624)
Total gathering system, net	10,101,020
Land	637,764
Buildings and other property and equipment, net	338,419
Total property and equipment, net	68,331,878
Other assets:	
Restricted cash	565,858
Prepaid drilling costs	379
Total non-current assets	68,898,115
Total assets	\$ 86,676,184
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<i>Current liabilities</i>	
Accounts payable trade	\$ 1,592,451
Royalties payable	1,155,698
Accrued capital expenditures	139,766
Accrued gathering fees	512,796
Other accrued liabilities	1,002,935
Asset retirement obligation	106,734
Total current liabilities	4,510,380
<i>Non-current liabilities</i>	
Asset retirement obligation	3,043,509
Deferred income taxes	10,102,852
Total non-current liabilities	13,146,361

Total liabilities	17,656,741
Commitments and contingencies (Note 10)	
<i>Shareholders' equity</i>	
Common shares, no par value, unlimited shares authorized and 23,985,799 issued and outstanding at December 31, 2020 and 26,790,985 shares issued and outstanding at December 31, 2019.	131,730,401
Additional paid-in capital	7,879,119
Accumulated deficit	(80,410,724)
Accumulated other comprehensive income	9,820,647
Total shareholders' equity	69,019,443
Total liabilities and shareholders' equity	\$ 86,676,184

[Epsilon Energy Ltd.](#)Audited Consolidated Statements of Cash Flows  
(All amounts stated in US\$)

	Year ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 875,171	\$ 8,697,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	9,557,891	7,387,681
Impairment of proved properties	1,760,000	-
Gain on sale/disposal of properties	-	(1,375,000 )
Gain on derivative contracts	(2,503,655 )	(4,246,057 )
Cash received from settlements of derivative contracts	4,503,457	1,949,232
Settlement of asset retirement obligation	(79 )	-
Stock-based compensation expense	849,631	510,460
Deferred income tax expense (benefit)	(2,298,612 )	2,412,186
Changes in assets and liabilities:		
Accounts receivable	379,629	745,217
Prepaid income taxes and other current assets	1,485,320	(1,625,244 )
Accounts payable, royalties payable and other accrued liabilities	207,613	(1,471,460 )
Net cash provided by operating activities	14,816,366	12,985,014
Cash flows from investing activities:		
Acquisition of unproved oil and gas properties	-	(596,500 )
Additions to unproved oil and gas properties	(504,551 )	(952,345 )
Additions to proved oil and gas properties	(4,870,976 )	(9,411,916 )
Additions to gathering system properties	(731,046 )	(366,059 )
Additions to land, buildings and property and equipment	(419,125 )	(588,325 )
Prepaid drilling costs	745	(1,124 )
Proceeds from sale of leases	-	1,375,000
Net cash used in investing activities	(6,524,953 )	(10,541,269 )
Cash flows from financing activities:		
Buyback of common shares	(9,078,522 )	(2,856,350 )
Exercise of stock options	-	54,250
Net cash used in financing activities	(9,078,522 )	(2,802,100 )
Effect of currency rates on cash, cash equivalents and restricted cash	10,169	12,548
(Decrease) in cash, cash equivalents and restricted cash	(776,940 )	(345,807 )
Cash, cash equivalents and restricted cash, beginning of period	14,613,711	14,959,518
Cash, cash equivalents and restricted cash, end of period	\$ 13,836,771	\$ 14,613,711
Supplemental cash flow disclosures:		
Income taxes paid	\$ 1,320,000	\$ 2,794,422

Interest paid	\$ 114,515	\$ 119,138
Non-cash investing activities:		
Change in proved properties accrued in accounts payable and accrued liabilities	\$ (1,825,230 )	\$ 1,464,965
Change in gathering system accrued in accounts payable and accrued liabilities	\$ 26,373	\$ (40,782 )
Asset retirement obligation asset additions and adjustments	\$ 37,722	\$ 1,169,903

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

	Year ended December 31,	
	2020	2019
Net income (loss)	\$ 875,171	\$ 8,697,999
Add Back:		
Net interest (income) expense	70,975	(43,523 )
Income tax expense (benefit)	575,420	3,777,489
Depreciation, depletion, amortization, and accretion	9,557,891	7,387,681
Impairment expense	1,760,000	-
Stock based compensation expense	849,631	510,460
(Gain) loss on derivative contracts net of cash received or paid on settlement	1,999,802	(2,296,825 )
Foreign currency translation (gain) loss	2,065	(437 )
Adjusted EBITDA	\$ 15,690,955	\$ 18,032,844

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