

Epsilon Reports First Quarter 2021 Results

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HOUSTON, May 06, 2021 - [Epsilon Energy Ltd.](#) ("Epsilon" or the "Company") (NASDAQ: EPSN) today reported first quarter 2021 financial and operating results and material subsequent events following the end of the quarter through the date of this release.

- Net cash provided by operations of \$5.6 million for the three months ended March 31, 2021, with free cash flow (FCF) of \$5.1 million for the same period.
- Realized gas prices of \$2.57/Mcf, (excluding hedges) and \$2.61/Mcf (including hedges) for the three months ended March 31, 2021.
- During the first three months of 2021 the company returned a total of \$0.5 million to shareholders through share repurchases representing a reduction of 0.5% of outstanding shares from December 31, 2020.
- Marcellus net revenue interest (NRI) gas production averaged 26.8 MMcf/d (Working Interest of 30.9 MMcf/d) for the first quarter. Working interest exit rate for the first quarter was 30.8 MMcf/d.
- Auburn System gathered and delivered 17.5 Bcf gross (6.1 Bcf net to Epsilon's interest) during the three months ended March 31, 2021 through the Auburn GGS which represents approximately 87% of maximum throughput as currently configured.
- Total revenues of \$8.4 million; net income of \$2.7 million; and EBITDA of \$5.4 million for the quarter.
- Cash at quarter end of \$17.9 million.
- Net income before tax of \$3.9 million for the quarter.
- Operating expenses including SG&A was \$1.26/Mcfe.

Michael Raleigh, CEO, commented, "Despite having some production curtailed in the first quarter for adjacent drilling operations, Epsilon achieved its internal upstream revenue expectations as a result of very constructive prices for natural gas, particularly in February. Current natural gas prices in the Northeast, however, are somewhat challenged as the normal maintenance cycle for pipelines in the spring reduces capacity out of the basin. We expect this maintenance, and the associated relatively weaker local prices, to continue through the end of May.

Natural gas production levels in Appalachia peaked above 34 Bcf/d in early January 2021 but have since declined and remained flat near the 33.5 Bcf. We do not expect growth in natural gas production in Appalachia or the total US market this year; however, we do expect strong demand to continue from LNG and Mexican export markets. It is likely that the market will price natural gas higher this summer in an effort to balance the market and build a comfortable inventory level prior to next winter.

Epsilon participated with its 22% interest in the drilling of an extended lateral targeting both the upper and lower Marcellus in May. This well is currently being completed and is expected to turn-in-line in early July."

Financial and Operating Results

	Three months ended	
	March 31,	
	2021	2020
Revenues		
Natural gas revenue	\$ 6,332,099	\$ 4,019,764

Volume (MMcf)	2,466	2,727
Avg. Price (\$/Mcf)	\$ 2.57	\$ 1.47
PA Exit Rate (MMcfpd)	32.8	33.1
Oil and other liquids revenue	\$ 107,056	\$ 91,380
Volume (MBO)	3.7	3.1
Avg. Price (\$/Bbl)	\$ 28.58	\$ 29.22
Gathering system revenue	\$ 2,002,157	\$ 2,316,702
Total Revenues	\$ 8,441,312	\$ 6,427,846

Capital Expenditures

Epsilon's capital expenditures were \$0.9 million for the three months ended March 31, 2021. This capital was mainly related to the completion of one gross (0.03 net to EPSN) well and the drilling of one gross (.22 net to EPSN) well during the 1st quarter of 2021, as well as expenditures for the Auburn Gas Gathering system.

Marcellus Operational Guidance

During the first quarter of 2021, the operator completed and turned in line one gross (0.03 net to EPSN). Additionally, the operator spud and drilled one gross (0.22 net to EPSN) wells. It is expected that this well will be completed in May and turned to production early July.

First Quarter Results

Epsilon generated revenues of \$8.4 million for the three months ended March 31, 2021 compared to \$6.4 million for the three months ended March 31, 2020.

Realized natural gas prices averaged \$2.56/Mcf (excluding hedges) for Marcellus Upstream operations in the first quarter of 2021. Operating expenses for Marcellus Upstream operations in the first quarter were \$1.4 million.

Auburn System gathered and delivered 17.5 Bcf gross of natural gas during the quarter as compared to 15.3 Bcfe during the fourth quarter of 2020. Primary gathering volumes declined 7.3% quarter over quarter to 12.2 Bcfe. Imported cross-flow volumes increased 15.3% to 5.3 Bcfe.

Epsilon reported net after tax income of \$2.7 million attributable to common shareholders or \$0.11 per basic and diluted common share outstanding for the three months ended March 31, 2021, compared to net income of \$0.3 million, and \$0.01 per basic and diluted common share outstanding for the three months ended March 31, 2020.

For the three months ended March 31, 2021, Epsilon's Adjusted Earnings Before Interest, Taxes, Depreciation, Amortization ("Adjusted EBITDA") was \$5.4 million as compared to \$4.6 million for the three months ended March 31, 2020.

About Epsilon

[Epsilon Energy Ltd.](#) is a North American onshore natural gas production and midstream company with a current focus on the Marcellus Shale of Pennsylvania.

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.

Contact Information:

281-670-0002

Michael Raleigh
Chief Executive Officer
Michael.Raleigh@EpsilonEnergyLTD.com

Special note for news distribution in the United States

The securities described in the news release have not been registered under the United States Securities Act of 1933, as amended, (the "1933 Act") or state securities laws. Any holder of these securities, by purchasing such securities, agrees for the benefit of [Epsilon Energy Ltd.](#) (the "Corporation") that such securities may not be offered, sold, or otherwise transferred only (A) to the Corporation or its affiliates; (B) outside the United States in accordance with applicable state laws and either (1) Rule 144(as) under the 1933 Act or (2) Rule 144 under the 1933 Act, if applicable.

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Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income
(All amounts stated in US\$)

	Three months ended March 31,	
	2021	2020
Revenues from contracts with customers:		
Gas, oil, NGLs and condensate revenue	\$ 6,439,155	\$ 4,111,144
Gas gathering and compression revenue	2,002,157	2,316,702
Total revenue	8,441,312	6,427,846
Operating costs and expenses:		
Lease operating expenses	1,594,188	2,047,767
Gathering system operating expenses	190,947	97,778
Development geological and geophysical expenses	11,539	2,629
Depletion, depreciation, amortization, and accretion	1,682,860	2,414,376
Impairment of proved properties	-	1,760,000
General and administrative expenses:		
Stock based compensation expense	202,499	173,919
Other general and administrative expenses	1,327,161	1,008,113
Total operating costs and expenses	5,009,194	7,504,582
Operating income (loss)	3,432,118	(1,076,736)
Other income (expense):		
Interest income	7,813	21,529
Interest expense	(27,073)	(28,006)
Gain on derivative contracts	465,341	1,721,018
Other income (expense)	1,941	(2,225)
Other income, net	448,022	1,712,316
Net income before income tax expense	3,880,140	635,580
Income tax expense	1,144,573	325,281
NET INCOME	\$ 2,735,567	\$ 310,299
Currency translation adjustments	242	(114)
NET COMPREHENSIVE INCOME	\$ 2,735,809	\$ 310,185
Net income per share, basic	\$ 0.11	\$ 0.01
Net income per share, diluted	\$ 0.11	\$ 0.01
Weighted average number of shares outstanding, basic	23,947,222	26,565,084
Weighted average number of shares outstanding, diluted	24,030,104	26,565,084

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

	March 31, 2021
ASSETS	
<i>Current assets</i>	
Cash and cash equivalents	\$ 17,851,587
Accounts receivable	3,462,548
Fair value of derivatives	401,141
Prepaid income taxes	-
Other current assets	339,209
Total current assets	22,054,485

Non-current assets

Property and equipment:

Oil and gas properties, successful efforts method

Proved properties

134,831,162

Unproved properties

21,510,765

Accumulated depletion, depreciation, amortization and impairment

(99,469,225)

Total oil and gas properties, net

56,872,702

Gathering system

42,215,928

Accumulated depletion, depreciation, amortization and impairment

(32,480,738)

Total gathering system, net

9,735,190

Land

637,764

Buildings and other property and equipment, net

335,455

Total property and equipment, net

67,581,111

Other assets:

Restricted cash

566,540

Prepaid drilling costs

223

Total non-current assets

68,147,874

Total assets

\$ 90,202,359

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable trade

\$ 725,168

Gathering fees payable

780,096

Royalties payable

1,414,126

Income taxes payable

247,513

Accrued capital expenditures

724,714

Other accrued liabilities

786,130

Asset retirement obligations

108,258

Total current liabilities

4,786,005

Non-current liabilities

Asset retirement obligations

3,042,871

Deferred income taxes

10,908,211

Total non-current liabilities

13,951,082

Total liabilities

18,737,087

Commitments and contingencies (Note 9)

Shareholders' equity

Common shares, no par value, unlimited shares authorized and 23,985,799 issued and 23,862,599 outstanding at March 31, 2021 and 23,985,799 shares issued and outstanding at December 31, 2020.

131,730,401

Treasury shares, 123,200 at March 31, 2021

(492,479)

Additional paid-in capital

8,081,618

Accumulated deficit

(77,675,157)

Accumulated other comprehensive income

9,820,889

Total shareholders' equity

71,465,272

Total liabilities and shareholders' equity

\$ 90,202,359

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

	Three months ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 2,735,567	\$ 310,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	1,682,860	2,414,376
Impairment of proved properties	-	1,760,000
Gain on derivative contracts	(465,341)	(1,721,018)
Cash received from settlements of derivative contracts	64,200	1,345,942
Settlement of asset retirement obligation	(3,483)	-
Stock-based compensation expense	202,499	173,919
Deferred income tax expense (benefit)	805,359	(69,478)
Changes in assets and liabilities:		
Accounts receivable	454,740	530,156
Prepaid income taxes and other current assets	161,374	478,540
Accounts payable, royalties payable and other accrued liabilities	(349,705)	(9,215)
Income taxes payable	336,798	-
Net cash provided by operating activities	5,624,868	5,213,521
Cash flows from investing activities:		
Additions to unproved oil and gas properties	(23,702)	(61,978)
Additions to proved oil and gas properties	(481,021)	(2,045,439)
Additions to gathering system properties	(40,963)	(101,473)
Additions to land, buildings and property and equipment	(5,745)	(145,640)
Prepaid drilling costs	156	244
Net cash used in investing activities	(551,275)	(2,354,286)
Cash flows from financing activities:		
Buyback of common shares	(492,479)	(1,499,586)
Net cash used in financing activities	(492,479)	(1,499,586)
Effect of currency rates on cash, cash equivalents and restricted cash	242	(114)
Increase in cash, cash equivalents and restricted cash	4,581,356	1,359,535
Cash, cash equivalents and restricted cash, beginning of period	13,836,771	14,613,711
Cash, cash equivalents and restricted cash, end of period	\$ 18,418,127	\$ 15,973,246
Supplemental cash flow disclosures:		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 29,562	\$ 28,006
Non-cash investing activities:		
Change in unproved properties accrued in accounts payable and accrued liabilities	\$ (65,000)	\$ -
Change in proved properties accrued in accounts payable and accrued liabilities	\$ 468,972	\$ (903,544)
Change in gathering system accrued in accounts payable and accrued liabilities	\$ (27,679)	\$ (21,026)
Asset retirement obligation asset additions and adjustments	\$ (21,554)	\$ 3,937

Epsilon Energy Ltd.

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

MDA_Adjusted_EBITDA

	Three months ended March 31,	
	2021	2020
Net income	\$ 2,735,567	\$ 310,299

Add Back:		
Net interest expense	19,260	6,477
Income tax expense	1,144,573	325,281
Depreciation, depletion, amortization, and accretion	1,682,860	2,414,376
Impairment expense	-	1,760,000
Stock based compensation expense	202,499	173,919
Gain on derivative contracts net of cash received or paid on settlement	(401,141)	(375,076)
Foreign currency translation loss	332	2,225
Adjusted EBITDA	\$ 5,383,950	\$ 4,617,501

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

Additionally, Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Epsilon has included Adjusted EBITDA as a supplemental disclosure because its management believes that EBITDA provides useful information regarding its ability to service debt and to fund capital expenditures. It further provides investors a helpful measure for comparing operating performance on a "normalized" or recurring basis with the performance of other companies, without giving effect to certain non-cash expenses and other items. This provides management, investors and analysts with comparative information for evaluating the Company in relation to other natural gas and oil companies providing corresponding non-U.S. GAAP financial measures or that have different financing and capital structures or tax rates. These non-U.S. GAAP financial measures should be considered in addition to, but not as a substitute for, measures for financial performance prepared in accordance with U.S. GAAP.

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Free Cash Flow Reconciliation (All amounts stated in US\$)

	Three months ended March 31	
	2021	2020
Net cash provided by operating activities	\$ 5,624,868	\$ 5,213,521
Less: Net cash used in investing activities (Capital Expenditures)	(551,275)	(2,354,286)
Free cash flow	\$ 5,073,593	\$ 2,859,235

Epsilon defines Free cash flow ("FCF") as net cash provided by operating activities in the period minus payments for property and equipment made in the period. FCF is considered a non-GAAP financial measure under the SEC's rules. Management believes, however, that FCF is an important financial measure for use in evaluating the Company's financial performance, as it measures our ability to generate additional cash from our business operations. FCF should be considered in addition to, rather than as a substitute for, net income as a measure of our performance or net cash provided by operating activities as a measure of our liquidity. Additionally, our definition of FCF is limited and does not represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other obligations, payments made for business acquisitions, or amounts spent to buy back shares. Therefore, we believe it is important to view FCF as supplemental to our entire statement of cash flows.

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