Federation of Business Disciplines Journal
Volume 11 2021 p 11 - 22

OIL AND GAS FINANCIAL REPORTING: COVID - 19 IMPACT

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ABSTRACT

The pandemic impacted the global economy and particularly the oil and gas industry during 2020. This investigation analyzes financial information for the first and second quarter of 2020 of selected small, medium-sized, and large oil and gas companies to determine the impact, if any, of COVID-19 on the industry. The discussion addresses external factors including industry challenges and government intervention.

Keywords: oil and gas industry, reported financial data, COVID-19

INTRODUCTION

The year 2020 had unprecedented effects on the global economy as a whole, but specifically within the oil and gas industries. Price wars, followed by minimal demand for products, and decimated companies with US oil prices hitting negative amounts for the first time ever. Fortunately, gas prices regained their value saving a large number of oil and gas companies (Baker Institute, 2020).

This investigation conducts a quantitative analysis of financial data, including year over year financial statements for the first quarter and second quarters of 2020. Second quarter 2020 is also measured against first quarter 2020 to determine how COVID-19 has affected each company. Additionally, the CARES Act (2020) that provided economic assistance to businesses and industries is studied as it relates to the Oil and Gas sector.

Selected publicly traded large, median, and small oil and gas producers with upstream activities are examined to estimate the effects of COVID-19 over the entire sector. In the oil and gas sector, upstream is defined as exploration and production companies and activities. The large companies, however, will also have midstream and downstream activities. It is not considered feasible to extract these activities and independently compare strictly the upstream activities, as

there is no differentiation on the SEC 10Q Filings. Thus, the large companies as not compared to the mid and small cap companies.

The summary of the data analyses and findings are presented with a conclusion that considers external factors such as industry challenges and government intervention.

DATA SELECTION

Balance Sheet Data Analyses

Industry financial data are collected to compare oil and gas companies of various sizes including small, medium, and large cap publicly traded companies to analyze financial ratios spanning the balance sheet, income statement, and statement of cash flows. Of the available balance sheet ratios, current ratio, debt to total assets, and debt to equity are calculated and analyzed. The balance sheet ratios include both liquidity and financial leverage ratios to determine if the company can pay its obligations as they come due and how effectively they can do so (Stephen Ross, 2020). Liquidity and leverage ratios are vitally important in the oil and gas industry, as it is a very debt-centric sector.

The current ratio, a liquidity ratio, is calculated by dividing current assets by current liabilities. This ratio indicates the likelihood of a company paying its liabilities as they come due. The debt to total assets and debt to equity ratios are both leverage ratios, that identify how effectively a company pays its' bills. Debt to total asset is calculated by dividing total liabilities by total assets. This ratio indicates how much of the business's assets are financed. Finally, the debt to equity ratio is total liabilities divided by total stockholders' equity. This ratio identifies how much money is provided by financing activities versus how much stockholder funds are being used. Typically, a more highly leveraged company will have greater difficulty securing financing during an industry downturn (Stephen Ross, 2020).

Income Statement and Statement of Cash Flows Data Analyses

Income statement ratios allow a year-to-year comparison, as well as comparisons with industry benchmarks to determine the operating efficiency of the company. Two key ratios are the profit margin ratio and earnings per share. The profit margin ratio using pre-tax income is calculated by dividing the pre-tax net income by gross sales. Earnings per share is a two-step process if the company has issued preferred stock and a simple one step calculation if no preferred stock is outstanding. However, SEC filing requirements require companies to include this information on the face of the income statement. To maintain consistency and measurability across the various companies, the diluted earnings per share measure is used. From the statement of cash flows, free cash flow is calculated using the net cash provided by operating activities, less capital expenditures. The free cash flow represents cash available to pay creditors or dividends and interest to owners (Stephen Ross, 2020).

ANALYSES

Small Cap Oil and Gas Companies

The small cap oil and gas companies selected for analysis include SilverBow Resources Inc and Talos Energy Inc. Although they are both considered small cap, Talos Energy Inc has twice the revenues of SilverBow Resources Inc. For the first quarter of 2020, Talos was not adversely affected by COVID-19, posting typical income and expenses resulting in a net income

Exhibit 1 Small Cap Analysis

Small Cap						
Q1 2020	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Silverbow	1.63	0.59	1.43	-0.04	-0.5	$23,323,000.00
Talos	1.63	0.57	1.32	1.13	2.69	($266,451,000.00)
Q2 2020	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Silverbow	1.4	0.86	5.93	-12.31	-25.69	$14,338,000.00
Talos	0.91	0.59	1.45	-2.14	-2.14	($259,982,000.00)
Q1 2019	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Silverbow	0.45	0.64	1.81	0.37	1.36	($37,329,000.00)
Talos	0.56	0.63	1.71	-0.65	-2.02	($94,190,000.00)
Q2 2019	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Silverbow	0.75	0.61	1.57	0.87	5.49	($76,814,000.00)
Talos	0.72	0.61	1.6	0.35	1.74	($74,527,000.00)

Source: Created by the author

before taxes of $213 million. However, due to capital expenditures, free cash flows decreased by approximately $266 million. The 1.63 current ratio indicates they have enough cash and cash equivalents on hand to meet all their liabilities (Exhibit 1). This can be misleading, as the largest current asset are assets from price risk management activities, which in this case, is hedging with derivatives (Talos Energy Inc, 2020). Profit margin ratio and earnings per share are a healthy 1.13 and $2.69, respectively.

Second quarter 2020 starts to paint a grim picture for Talos Energy Inc, with the current ratio (due to a reduction in the price risk management activities asset) falling below 1.0, to 0.91. The debt to equity and debt to total asset ratios remain relatively unchanged (Exhibit 1), but earnings per share and the profit margin ratio both crater to ($2.14). Free cash flow has increased slightly from first quarter 2020, to ($260) million (Exhibit 1). Revenues have fallen by over 50% from first quarter and the second quarter posts a $190 million loss (Talos Energy Inc, 2020).

Compared to the same quarters in 2019, the company is in a very similar financial state, despite the huge losses of revenue. The company has received $300 million in financing but was

not eligible for any relief through the CARES act (Talos Energy, 2020). This new loan is responsible for the slight decreases in debt to total assets and debt to equity rations from 2019, as well as Talos Energy Inc maintaining enough funds on hand to meet all debt obligations.

SilverBow Resources Inc is a much smaller company than Talos Energy Inc and it shows in how COVID 19 affected the company. From strong first and second quarters in 2019, SilverBow Resources Inc incurred losses in first and second quarter 2020 (Exhibit 1). While these are paper losses due to write-downs on oil and gas assets; they can have an outsized effect on a small company such as SilverBow Resources Inc by restricting the availability of new financing opportunities. Oil and gas companies are typically highly leveraged and do not maintain much operating capital on hand (Exhibit 1). As of December 31, 2020, SilverBow Resources Inc had approximately $1.4 million cash and cash equivalents on hand. By the end of the first quarter 2020, they had $35.6 million on hand (SilverBow Resources, 2020). Due to the first quarter loss stemming from write-downs, the company was able to increase cash reserves by $34 million, while only financing a net of $11 million (SilverBow Resources, 2020).

Second quarter 2020 is a much similar picture to the first, but with write-downs magnified. Second quarter had additional write-downs of $260 million, dwarfing the $95 million from the first quarter. Reductions in quarterly sales by two-thirds led to a net loss of $283 million, including the write-down. As a result of these factors, cash and equivalents fell drastically to $6.6 million, drawing into question the feasibility of continued operations (SilverBow Resources, 2020). The current ratio appears to be a healthy 1.4 at the end of second quarter, but the majority is in receivables and derivatives, which may or may not be collected with the current market conditions (Exhibit 1). At the end of the second quarter 2020, SilverBow Resources Inc increased debt to equity by 4.5 from first quarter 2020 and similar figures from 2019 (SilverBow Resources, 2020). The company ends the quarter with debt to equity of 5.93, a profit margin ratio of -12.31, and earnings per share of a mind blowing ($25.69) (Exhibit 1). As with Talos Energy Inc, SilverBow Resources Inc was not eligible for assistance under the CARES Act and they do not anticipate relief or a material effect on its financial condition (Talos Energy, 2020).

Mid Cap Oil and Gas Companies

The mid-cap oil and gas companies selected are Magnolia Oil & Gas Corporation and Northern Oil and Gas Inc. Unlike the small cap corporations, Magnolia Oil and Gas Corporation and Northern Oil and Gas Inc are very similar in size and scope of operations. The primary revenues of each are derived from oil and gas sales, with non-material sources of other revenue.

Magnolia Oil & Gas Corporation had a dismal first quarter 2020, incurring a net loss of almost two billion dollars. Revenues were only down $20 million from first quarter 2019, so what happened (Magnolia Oil, 2020)? First quarter 2020 saw Magnolia Oil and Gas Corporation incur $550 million in exploratory expenses, in addition to impairment recorded of approximately $1.4 billion. Gross revenues were decreased by $20 million, from $171 million in first quarter 2019 to $154 million in first quarter 2020 (Magnolia Oil, 2020). While the current ratio increased between 2019 and 2020, debt to equity and debt to total assets also doubled. As there was no new financing in first quarter 2020, the ratios were affected only by the write-down of assets. As with SilverBow Resources Inc, this can have a negative effect on the availability of new financing (Magnolia Oil,

2020). Due to the substantial loss, the profit margin ratio was -10.87 and earnings per share were ($7.34). These are down from first quarter 2019 numbers of 0.12 and $0.08, respectively.

Magnolia Oil & Gas Corporation saw second quarter revenues decrease year over year by almost two-thirds. Second quarter 2020 total revenues were $83 million, compared to $243 million the prior year. However, expenses were also curtailed, leaving the company with a minor $6.6 million second quarter 2020 loss (Magnolia Oil, 2020). Second quarter earnings per share increased from ($7.34) in the first quarter to ($0.11) in the second quarter. Debt to equity and debt to total asset ratios both increased slightly from first quarter 2020, by 0.02 and 0.04, respectively. Despite negative cash flows in first and second quarter 2020, Magnolia Oil & Gas Corporation maintains a current ratio of 1.52, slightly increasing from quarter one's 1.35 (Exhibit 2). Cash and cash equivalents decreased approximately $30 million from first quarter 2020 to second quarter 2020, with free cash flows remaining negative for both quarters. Second quarter 2020 saw earnings per share increase to ($0.11) and profit margin ratio increase to -0.39. Both of these are below the year over year figures of earnings per share of 0.12 and a profit margin ratio of 0.15, respectively (Exhibit 2). Magnolia Oil & Gas Corporation was also not able to utilize any portion of the CARES Act for a material effect.

Northern Oil and Gas Inc improved between first quarter 2019 and first quarter 2020, seeing positive gains in all measured metrics, except free cash flows (Exhibit 2). The current ratio increased from 0.56 to 1.51, debt to total assets decreased from 0.78 in 2019 to 0.55 in 2020, debt to equity was effectively cut in half, from 3.46 in 2019 to 1.22 in first quarter 2020, while earnings

Exhibit 2: Mid Cap Analyses

Mid Cap						
Q1 2020	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Magnolia	1.35	0.33	0.49	-10.87	-7.34	($28,722,000.00)
Northern	1.51	0.55	1.22	0.73	0.74	($3,850,000.00)
Q2 2020	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Magnolia	1.52	0.35	0.53	-0.39	-0.11	($33,591,000.00)
Northern	1.14	0.89	7.98	-17.3	-2.17	$11,722,000.00
Q1 2019	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Magnolia	1.1	0.16	0.19	0.12	0.08	($66,949,000.00)
Northern	0.56	0.78	3.46	-15.45	-0.29	$21,000,000.00
Q2 2019	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Magnolia	1.15	0.15	0.18	0.15	-7.46	($41,326,000.00)
Northern	0.49	0.74	2.84	0.24	0.12	$7,159,000.00

Source: Created by author

per share and profit margin ratio went from negative to positive figures. Earnings per share after first quarter 2019 was ($0.29) and jump to $0.74 in first quarter 2020. Meanwhile, the profit

margin ratio increased from -15.45 in 2019 to 0.73 to first quarter 2020 (Exhibit 2). Year over year revenues also increased, due to gains on derivatives of $376 million. Oil and gas sales remained very similar, but the driving factor for the differences was a $140 million loss on derivatives in 2019. The derivatives changed a 2019 net loss before taxes of $107 million into a net income before taxes of $368 million. Based on the available information, Northern Oil and Gas Inc does not maintain a large cash and equivalents balance, preferring to hedge with derivatives (Northern Oil and Gas, 2020).

Unlike first quarter 2020, second quarter 2020, shows the effects of COVID 19 starting to take hold on the company. By the end of the second quarter, current assets have devalued by approximately $150 million from first quarter 2020, with cash and equivalents of $205 million (Northern Oil and Gas, 2020). However, the current ratio is 1.14, which is considerable better than first and second quarters 2019, which posted a 0.56 and 0.49, respectively (Exhibit 2). Second quarter net loss before taxes totaled almost $900 million, with $762 million attributable to oil and gas property impairment (Northern Oil and Gas, 2020). This resulted in the worst earnings per share and profit margin ratio of all measured periods, a profit margin ratio of -17.30 and ($0.29) earnings per share. In addition to the impairment of assets, Northern Oil and Gas Inc experienced a loss of $72 million on its derivatives (Northern Oil and Gas, 2020). As with the preceding companies, the provisions of the CARES Act has no material impact on Northern Oil and Gas (Northern Oil and Gas, 2020).

Large Cap Oil and Gas Companies

The large cap oil and gas companies are well recognized, typical household names, and are magnitudes larger than any other the previous companies analyzed. Large cap oil and gas company financial statements are measured in millions of dollars, as opposed to the preceding thousands of dollars in use by the small and mid-sized companies. Both of the companies examined maintain facilities at all levels of the process, from production, to refining, and direct to consumer sales via gas stations. The selected companies are Chevron Corporation and Exxon Mobil Corporation. Due to the nature of the presented financial statements, subsidiaries are included in the analysis.

Exhibit 3: Large Cap Analyses

Large Cap						
Q1 2020	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Chevron	1.01	0.39	0.63	0.13	1.93	$1,589,000,000.00
Exxon	0.78	0.47	0.92	-0.004	-0.14	$329,000,000.00
Q2 2020	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Chevron	1.14	0.4	0.66	-0.79	-4.44	($423,000,000.00)
Exxon	0.93	0.48	0.97	-0.05	-0.26	($4,088,000,000.00)
Q1 2019	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Chevron	1.12	0.39	0.65	0.11	1.39	$2,134,000,000.00

Exxon	0.77	0.44	0.83	0.07	0.55	$3,139,000,000.00
Q2 2019	Current Ratio	Debt to Total Assets	Debt to Equity	Profit Margin Ratio	Earnings Per Share	Free Cash Flow
Chevron	1.15	0.38	0.63	0.15	2.28	$7,303,000,000.00
Exxon	0.74	0.45	0.85	0.07	0.73	$2,913,000,000.00

Source: Created by author

Chevron Corporation saw operating revenues decrease by $5 billion from first quarter 2019 to first quarter 2020, but due to less oil and gas purchases, saw a slightly higher net income before taxes of $3.6 billion, up by almost one billion from first quarter 2019 (Chevron Corporation, 2020). This amount, when added to the net cash flows from investments, left Chevron with just under $8.5 billion in cash entering second quarter 2020 (Chevron Corporation, 2020). Chevron Corporation's current ratio for the first quarter 2020 was 1.01, down from 1.12 in the first quarter of 2019. However, the debt to total assets remains unchanged at 0.39 and the debt to equity has decreased by 0.02 to 0.63 (Exhibit 3). These amounts are almost immaterial and more than likely driven by Chevron Corporation not having to write-down or impair oil and gas properties. Additionally, inventories increased their values from December 31, 2019; appreciating by approximately $700 million (Chevron Corporation, 2020).

The result of the first quarter in 2020 is the company reporting an average profit margin ratio of 0.13, which splits the first quarter of 2019 and second quarter 2020. First quarter 2019 had a profit margin ratio of 0.11 and the second quarter 2019 had 0.15, respectively. First quarter 2020 earnings per share increased to $1.93 from first quarter 2019's $1.39 (Exhibit 3). Comprehensive income net of tax was approximately $3.7 billion.

By the end of the second quarter, 2020, Chevron Corporation saw operating revenues decrease to $13.5 billion (Chevron Corporation, 2020). This is drastically reduced from the $38.9 billion in revenues during the second quarter of 2019, resulting in a $8 billion comprehensive loss net of taxes. However, despite ($432) million in cash flows, the second quarter 2020 current ratio increased from the first quarters 1.01 to 1.14. This is on par with second quarter 2019, which had a current ratio of 1.15 (Exhibit 3). The debt to total assets and debt to equity also increased when compared to all other periods examined. The debt to total assets increased to 0.40, up from a previous high of 0.39, while debt to equity increased to 0.66 for the second quarter 2020. Its' previous high was in the first quarter of 2019, at 0.65 (Exhibit 3). These increases, coupled with the new borrowings of $2.5 billion during 2020's second quarter, explain the cash and equivalents on hand of $6.9 billion, which is an increase from second quarter 2019's $5.7 billion. The company's second quarter 2020 inventories have decreased approximately $1 billion in value, although it is not clear if the decrease is a result in usage/sales or the significantly reduced pricing (Chevron Corporation, 2020).

While the company still has a very strong second quarter 2020 balance sheet, they posted a ($4.44) earnings per share and a profit margin ratio of -0.79. The previous lows were from first quarter 2019, with earnings per share of $1.39 and a profit margin ratio of 0.11 (Exhibit 3). Chevron Corporation did not receive any benefits under the CARES Act (US Treasury, 2020) and

does not expect to receive any material benefits, but they will continue to monitor (Chevron Corporation, 2020).

Exxon Mobil Corporation started 2020 with a reduction in revenues of approximately $9 billion, down to $56 billion in first quarter 2020 from $63 billion in first quarter 2019. The decreased revenues led to a first quarter 2020 comprehensive loss net of taxes in the amount of nearly $5.5 billion. Comparatively, first quarter 2019 posted comprehensive income net of taxes in the amount of $3.3 billion (Exxon Mobil Corp, 2020). Exxon Mobil Corporation was also able to escape any significant write-downs or impairments on its assets, with a debt to total assets of 0.47 and debt to equity of 0.92. Comparatively, first quarter 2019 had a debt to total assets of 0.44 and debt to equity of 0.83 (Exhibit 3). The company received nearly $8.5 billion in new borrowings and $11.4 billion in cash and equivalents to end first quarter 2020. Despite this influx, ExxonMobil Corporation's current ratio was at 0.78, up only 0.01 from first quarter 2019. Exxon Mobil Corporation also had major decreases to its crude oil and products inventory, ending first quarter 2020 with approximately $18 billion, nearly $2 billion less than first quarter 2019 (Exxon Mobil Corp, 2020). It is again not apparent if this is due to usage or write-downs. Like Chevron Corporation, Exxon Mobil Corporation also curtailed first quarter 2020 oil and gas purchases by $1.2 billion from first quarter 2019 (Exxon Mobil Corp, 2020).

However, unlike Chevron Corporation, this was not enough to prevent the aforementioned loss. Exxon Mobil Corporation ended the first quarter of 2020 with an earnings per share of ($0.14) and a profit margin ratio of -0.004 (Exhibit 3). These are calculated on Exxon Mobil Corporation's net loss from operations, not comprehensive income, or losses, from which the company benefited. Exxon Mobil had a very minor operating loss of $258 million. In comparison, first quarter 2019 saw operating incomes of $4.2 billion (Exxon Mobil Corp, 2020).

Exxon Mobil Corporation entered second quarter with a mixed bag left over from the first quarter. Second quarter, however, was one of Exxon Mobil Corporation's worst. Exxon Mobil Corporation posted a second quarter 2020 net operating loss in excess of $1 billion, easily the largest loss experienced by the company. Prior to the first quarter of 2020, Exxon Mobil has not posted an operating loss in thirty-two years (Bromels, 2020), let alone one of this magnitude. The second quarter of 2019 posted operating income of $4.6 billion and a comprehensive income still north of $4 billion. As with the first quarter, Exxon Mobil Corporation was able to avoid any significant write-downs to assets or inventories. However, $12 billion in new financing was secured, increasing the current ratio to 0.93, debt to total assets of 0.48, and debt to equity of 0.97. If major write-downs had occurred, additional financing would be very difficult to find moving forward.

Revenues were less than half of second quarter 2019, at $32 billion. Second quarter 2019 had revenues of $69 billion, respectively (Exxon Mobil Corp, 2020). With a loss of this magnitude, the company posted a profit margin ratio of -0.05 and earnings per share of ($0.26). In the 2019 and 2020 periods covered, Exxon Mobil Corporations profit margin ratio had never exceeded 0.07, indicating the very tight margins the company was competing with (Exhibit 3). As with the rest of the oil and gas companies analyzed, Exxon Mobil Corporation was unable to secure any material assistance through the CARES Act and will continue to monitor the situation in case any does become available (Exxon Mobil Corp, 2020).

SOCIOECONOMIC AND RECOVERY CONCERNS

With the end of the third quarter in 2020, the oil and gas industry has still not recovered from the devastating effects of COVID-19. Economists and environmentalists discuss the demise of oil, with the term peak oil being used frequently. So, exactly what is peak oil and did COVID 19 help to bring it about? Peak oil refers to both the supply and demand side. As recently as 2006, it was expected that the supply of oil would be outstripped by demand (Walker, 2006). However, due to advances in exploration, extracting, and refining, more oil was consumed than any other year on record (US Energy Information Administration, 2020). As a result of these new reserves, peak oil has come to refer to the peak demand for oil, not diminishing supplies.

The most well-known adversary to the oil and gas industry is *green energy*. Environmentalists argue for a transition to green energy (or energy from renewable sources), in order to prevent devasting climate change. There are arguments on both sides, with those against clamoring against a green initiative because we have not even finished battling COVID-19 or that climate policy needs to be well thought out and planned, not as a rapid, knee-jerk reaction (Mukanjari and Sterner, 2020).

Proponents of a green path to recovery argue returning to the status quo is exactly what has been damaging the environment and we should transition the idle resources into furthering green energy. They also argue the political system is capable of handling only a certain number of policy items and the climate crisis should be dealt with simultaneously (Mukanjari and Sterner, 2020).

Industry analysts project 2021 consumption to increase to 98.8 million barrels per day, which is slightly below the 2019 high of 101.52 million barrels per day. This is expected to rise annually (US Energy Information Administration, 2020), until true peak oil has been reached. Currently, too many industries are reliant on petroleum or petroleum products that cannot easily be replaced through green initiatives. Generally, those initiatives are solely concerned with power generation.

Meanwhile, the government has issued no oil and gas industry specific relief packages. News outlets and other organizations (such as Bloomberg News, the Washington Post, and the Sierra Club) had reported at least thirty-seven oil and gas companies receiving billions in benefits from the CARES Act (US Treasury, 2020). However, what the majority of the articles fail to mention is how the industry is only using the changes to the net operating loss section of the tax code and there is no targeted relief, as that is available across all industries (American Petroleum Institute, 2020). Additionally, the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) have issued little guidance or easing of reporting restrictions. The FASB has issued a Staff Q&A (FASB, 2020) related to Lease Accounting, in which they clarified that any considerations provided to a lessee by the lessor due to COVID-19 will be considered as part the original lease agreement for accounting purposes (FASB, 2020). Additionally, both the FASB and SEC have issued notes to the financial statements.

INDUSTRY ANALYSES

COVID-19 has undoubtedly left an impact on the oil and gas industry, though how severe and for how long are entirely unknown. Official consumption estimates are operating under assumptions of normal recovery conditions, which may or may not be true. Oil refineries are being permanently closed, retooled, sold, or having capacity severely curtailed worldwide, with fourteen

being impacted worldwide. Some of these refineries include the largest refineries within countries or the largest refinery being owned and operated by said company (Reuters, 2020). Some older wells will not recover to pre-COVID levels after being shut-in, with the requisite pressure from injections lost and unable to be regained upon resuming operations. These wells will either be abandoned, plugged, or deemed as low producing.

Unsustainable losses, over-leveraged assets, and no clear path to recovery have caused thirty-six oil and gas producers to seek bankruptcy protection and restructuring as of October 2020 (Resnick, Ault and Nair, 2020). This is more than any year since the 2016 shale downturn and analysts expect the filings to continue into 2021.

With no end to low prices or other relief in sight, companies are now seeking merger and acquisitions and consolidations in order to survive the current operating environment. Deloitte issued a report stating to expect that, of the 107,000 oil and gas industry jobs lost this year, at most 30% will return by the end of 2021. However, the caveat to this report is that at current oil prices, experts are projecting 97% of those 107,000 jobs to remain lost (Blackmon, 2020).

CONCLUSION

Based on the analysis and circumstances, COVID-19 definitely had an effect on oil and gas financial reporting. The effect is still on-going and will continue through at least 2021 at the earliest estimates (Blackmon, 2020). As with the entire US economy, the smaller entities within the oil and gas sector have taken the brunt of COVID-19, depleting or nearly depleting cash reserves and financing opportunities. Mid-sized companies are able to weather the COVID-19 storm a little bit better, especially if they are well run and managed correctly. Talos Energy Inc is a very good example, prudently borrowing to both pay down existing debt and increase cash reserves.

The large companies are in a unique class, spanning multiple continents and diversified into all aspects of the industry, with vertical supply chain integrations. However, even these companies are not infallible, as exemplified by Exxon Mobil experiencing three straight quarters of losses (Exxon Mobil Corp, 2020), after having none for over thirty years.

The full effects on the oil and gas industry will not be known some time, as the health crisis is still ongoing, with new restrictions being emplaced in various states, including curfews and business closures. As a result, COVID-19 has enacted a profound and perhaps irrecoverable blow to the oil and gas industry. Oil and gas, from the wells to the refineries, have been subject to whatever new regulations or guidance the administration desires, which are typically politically motivated. This means, in addition to decreased supply, new political leadership will be overseeing the economy and federal regulations applicable to the industry, which may further depress any recovery. Political party members have been clamoring for a quick departure from petroleum products and investment in green energy sources and replacements for single use plastics, the new administration has made no announcements as to their intent. Restrictions on production and exploration may further hamper any recovery and, if they come to pass, may indeed speed up peak oil (Mukanjari and Sterner, 2020).

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