

# Freehold Royalties Ltd. Enters Into \$120 Million Gross Overriding Royalty Joint Venture and Announces Equity Financing

25.06.2014 | [Marketwired](#)

CALGARY, ALBERTA -- (Marketwired - June 25, 2014) - [Freehold Royalties Ltd.](#) (Freehold or the Company) (TSX:FRU) announced it has entered into a \$120 million strategic joint venture (the Joint Venture) with a Canadian based company (JV Partner) in the East Edson area of Alberta (the JV Area).

## New Joint Venture highlights:

- Freehold assumes a priority share of production through the creation of a gross overriding royalty (GORR) Joint Venture. Commencing on the anticipated closing date of July 16, 2014, royalty production anticipated to be received by Freehold with this Joint Venture through 2014 is forecasted at approximately 5.6 mmcf/d of sales natural gas plus associated liquids (~82% natural gas). Total royalty production from the Joint Venture is forecast to remain flat from 2014 to year-end 2022, declining 10% per year thereafter.
- Under the Joint Venture, Freehold assumes no operating costs (outside of transport fees), no royalty deductions and no abandonment liabilities. Freehold will receive "priority" royalty volumes.
- As part of its \$120 million capital commitment, Freehold will acquire a 50% royalty interest on current production within the JV Area (Producing Royalty) for \$50 million and will have a capital commitment of \$70 million pursuant to a Farmout and Royalty Agreement (Drilling Royalty). Once Freehold's share of the existing royalty production from the Producing Royalty declines below 5.6 mmcf/d, volumes from new wells are added pursuant to the Drilling Royalty to maintain Freehold's production at a cap rate of 5.6 mmcf/d plus associated liquids for 8.5 years. The \$70 million capital commitment pursuant to the Drilling Royalty will be paid by Freehold at closing to be held in escrow until such time as the capital is required for the drilling program. The Joint Venture comes with associated Canadian Oil and Gas Property Expense (COGPE) and drilling program tax pools.
- The JV Partner has agreed to commit to spend \$30 million (approximately 6 net Wilrich horizontal wells) in additional drilling over the life of the agreement over and above \$100 million (\$70 million from Freehold and \$30 million from the JV Partner) of escrowed Joint Venture funds (approximately 20 net Wilrich horizontal wells). The JV Partner has also committed to construct a new 30 mmcf/d gas plant (at an expected cost of \$30 million) or expand existing processing infrastructure within the JV Area.
- Effective as of July 1, 2014, the proved plus probable reserves attributed to Freehold pursuant to the Joint Venture were independently estimated to total approximately 6 mmboe (approximately 86% natural gas). Proved reserves were independently estimated to be approximately 0.6 mmboe (approximately 83% natural gas).
- Based on \$120 million, the transaction implies approximately 8 times annualized 2014 cash flow (before tax) and \$105,000 boe/d per flowing boe based on forecasted 2014 production, both accretive to Freehold's current valuation.
- Freehold considers this Joint Venture as offering a low risk, attractive return for Freehold, showcasing the Company's flexibility in creating value for its shareholders as well as presenting an attractive non-dilutive method of funding energy industry development drilling.

The Joint Venture will be effective July 1, 2014 and will encompass a multi-year commitment by both parties to develop the JV Partner's East Edson acreage. Closing is expected to occur on or about July 16, 2014. Upon completion of the transaction, we expect to increase our average production guidance for 2014 by 4% to 9,500 boe/d (72% royalties); all other operating assumptions (provided in the first quarter news release) remain unchanged. As we have in the past, we expect to update shareholders on 2014 guidance for other key operating assumptions when we release our second quarter results, which are expected after market August 7, 2014.

In conjunction with the Joint Venture, Freehold is pleased to announce that it has entered into an agreement

with CIBC, on behalf of a syndicate of underwriters, to issue, on a bought deal basis 4,650,000 common shares at a price of \$26.90 per share (the Issue Price) for gross proceeds of approximately \$125 million. Freehold has also granted the underwriters an over-allotment option to purchase, on the same terms, up to an additional 465,000 common shares at the Issue Price. This option is exercisable by the underwriters, in whole or in part, at any time for a period of 30-days following closing.

Concurrent with the closing of the bought deal offering, the pension trust funds for employees of Canadian National Railway Company (CN Pension Trust Funds) intend to purchase approximately \$15 million (557,621 common shares) of Freehold, at the Issue Price on a non-brokered private placement basis. The aggregate gross proceeds to be raised by the Company pursuant to the bought deal offering and the investment by the CN Pension Trust Funds will be approximately \$140 million before giving effect to any exercise of the over-allotment option by the underwriters. If the underwriters exercise the over-allotment in full, the aggregate gross proceeds to be raised by the Company pursuant to the bought deal offering and the investment by the CN Pension Trust Funds will be approximately \$153 million.

Freehold expects to use a portion of the net proceeds from the bought deal offering and investment by the CN Pension Trust Funds to fund its commitments pursuant to the Joint Venture and the remainder to pay down a portion of outstanding indebtedness.

Completion of the offering is subject to certain conditions including normal regulatory and stock exchange approvals. In addition, the bought deal offering will require that the Joint Venture close at or before the closing time of the offering unless otherwise agreed to by the underwriters and Freehold. The common shares will be offered in all provinces of Canada (excluding Quebec), by way of a short form prospectus. The closing of the offering is expected to occur on or before July 16, 2014.

The common shares offered have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

**Cautionary Statement Regarding Forward-Looking Information** - This news release offers our assessment of Freehold's future plans and operations as at June 25, 2014 and contains forward-looking information including, as to the expectation that GORR production from the Joint Venture will remain flat from 2014 to year-end 2022, declining 10% per year thereafter, the expected terms of the Joint Venture including the expected capital to be committed by each party and the requirement for the JV Partner to build a new plant (and the expected cost of such plant), the expectation that the Joint Venture offers a low risk, attractive return for Freehold as well as presenting an attractive non-dilutive method of funding energy industry development drilling, the expected closing date of the Joint Venture, Freehold's expectations for changes to production guidance for 2014 as a result of the Joint Venture, Freehold's expectation to update shareholders on 2014 guidance for other key operating assumptions when Freehold releases our second quarter results, which is expected after market August 7, 2014, expected use of proceeds from the bought deal offering and investment by CN Pension Trust Funds and the expected closing date of. This forward-looking information is provided to allow readers to better understand our business and prospects and may not be suitable for other purposes.

By its nature, forward-looking information is subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, taxation, royalties, regulation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. The closing of the Joint Venture, bought deal offering and investment by CN Pension Trust Funds could be delayed if Freehold or the JV Partner are not able to obtain the necessary regulatory and stock exchange approvals on the timelines it has planned. The Joint Venture, bought deal offering and investment by CN Pension Trust Funds will not be completed at all if these approvals are not obtained or some other condition to the closing is not satisfied. Accordingly, there is a risk that the Joint Venture, bought deal offering and investment by CN Pension Trust Funds will not be completed within the anticipated time or at all. The intended use of the net proceeds of the bought deal offering and investment by CN Pension Trust Funds by Freehold might change if the board of directors of Freehold determines that it would be in the best interests of Freehold to deploy the proceeds for some other purpose. Risks are described in more detail in Freehold's annual information form for the year ended December 31, 2013 which is available under Freehold's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

With respect to forward looking information contained in this news release, we have made assumptions regarding, among other things, future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the costs of developing and producing our assets; our ability and

the ability of our lessees to obtain equipment in a timely manner to carry out development activities; our expectation for industry drilling levels; and our ability to obtain financing on acceptable terms.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking information. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained herein is expressly qualified by this cautionary statement. Except as required by law, Freehold does not assume any obligation to publicly update or revise any forward-looking information to reflect new events or circumstances.

## Reserves Estimates

The reserves estimates presented herein were based on an evaluation prepared by McDaniel & Associates Consultants Ltd. (McDaniel) effective as of July 1, 2014 utilizing forecast prices and costs and prepared in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook. The price assumptions used for the estimates were provided by McDaniel and were McDaniel's forecast as at April 1, 2014. The reserves estimates have been presented on a net basis which means Freehold's working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves.

## Conversion of Natural Gas to Barrels of Oil Equivalent (BOE)

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/176669--Freehold-Royalties-Ltd.-Enters-Into-120-Million-Gross-Overriding-Royalty-Joint-Venture-and-Announces-Equity-Financing>

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