

# Pipestone Energy Corp. Reports First Quarter 2020 Results and Provides an Operations Update

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CALGARY, May 13, 2020 - (PIPE – TSX-V) [Pipestone Energy Corp.](#) ("Pipestone Energy" or the "Company") is pleased to report its Q1 2020 financial and operational results, and an update to our business plan in response to the dramatic drop in commodity prices related to the worldwide COVID-19 crisis which resulted in an unprecedented short term collapse in oil demand. This will also include an operations update with encouraging initial production results from the 6-24 pad; 2020 production management strategy; continued improved well cost performance realized on the 6-30 pad-site; G&A cost savings initiatives, and an update on its commodity risk management program. The Company has filed its unaudited financial statements and related management's discussion and analysis ("MD&A") for the quarter ended March 31, 2020 on SEDAR. A conference call has been scheduled for Wednesday, May 13 at 9:00 a.m. Mountain Daylight Time (11:00 a.m. Eastern Daylight Time) for interested investors, analysts, brokers and media representatives.

Paul Wanklyn, President and CEO said, "I am extremely proud of the performance of our team, particularly through these difficult times. We have reacted swiftly to cut costs to survive this crisis with the appropriate level of liquidity for the Company. We have demonstrated once again that we are executing capital programs within the top decile of Montney operators. I am confident that a recovery in oil prices will take place as the world emerges from the current demand-driven crisis and that Pipestone will be positioned to react quickly to positive changes as they come."

## FIRST QUARTER 2020 CORPORATE HIGHLIGHTS

- Generated revenues, adjusted funds flow and net income of \$32.0 million, \$11.8 million and \$15.5 million, respectively, during the three months ended March 31, 2020;
- Despite unplanned third-party processing facility outages that lasted for approximately 22 days or 24% of the operating days during the quarter, production averaged 14,066 boe/d (comprised of 28% condensate and 38% total liquids) and;
- Invested \$29.2 million in Q1 2020 to further advance the development of its Pipestone project by bringing on production from 3 of 6 new wells at the 6-24 pad-site; drilling 6 wells at the 6-30 pad-site; and completion of additional in-field infrastructure to support future production. The Company's forecasted 2020 spend is trending to the mid-point of its revised capital budget of \$55 - \$65 million, as it continued to realize efficiency gains and cost savings from drilling, completion, equipping and tie-in operations. The company estimates that approximately 95% of its forecast capital spending program has been completed by April 30, 2020.

## [Pipestone Energy Corp.](#) – Financial and Operating Highlights

(\$ thousands, except per unit and per share amounts)	Three months ended March 31,	
	2020	2019 <sup>(7)</sup>
<b>Financial</b>		
Sales of liquids and natural gas	\$ 32,017	\$ 460
Cash from (used in) operating activities	31,067	(12,785 )
Adjusted funds flow from (used in) operations <sup>(1)</sup>	11,820	(8,663 )
Per share, basic and diluted <sup>(2)</sup>	0.06	(0.05 )
Income (loss)	15,541	(4,302 )
Per share, basic and diluted <sup>(2)</sup>	0.08	(0.02 )
Capital expenditures	29,154	49,468
Acquisitions	-	234,722

Working capital (deficit) ( <i>end of period</i> )	(7,103 )	2,411
Bank debt ( <i>end of period</i> )	163,000	80,735
Shareholders' equity ( <i>end of period</i> )	386,147	378,896
Available funding ( <i>end of period</i> ) <sup>(3)</sup>	\$ 23,608	\$ 98,427
Annualized cash return on invested capital (CROIC) (%) <sup>(3)</sup>	9.5	% NMN <sup>(6)</sup>
Annualized return on capital employed (ROCE) (%) <sup>(3)</sup>	1.8	% NMN <sup>(6)</sup>
Shares outstanding ( <i>end of period</i> ) <sup>(2)</sup>	189,906	189,609
Weighted-average basic shares outstanding <sup>(2)</sup>	189,820	184,540
Weighted-average diluted shares outstanding <sup>(2)</sup>	189,841	184,540
Operations		
Production		
Crude oil ( <i>bbls/d</i> )	88	82
Condensate ( <i>bbls/d</i> )	3,955	-
Other natural gas liquids (NGL) ( <i>bbls/d</i> )	1,265	17
Total NGL ( <i>bbls/d</i> )	5,220	17
Natural gas ( <i>Mcf/d</i> )	52,546	318
Total ( <i>boe/d</i> ) <sup>(4)</sup>	14,066	152
Condensate and crude oil (% of total production)	29	% 54 %
Total liquids (% of total production)	38	% 65 %
Benchmark prices		
Crude oil – WTI (C\$/bbl)	\$ 61.34	\$ 73.25
Condensate – Edmonton Condensate (C\$/bbl)	60.12	68.73
Natural gas – AECO 5A (C\$/Mcf)	1.92	2.60
Average realized prices <sup>(5)</sup>		
Crude oil ( <i>per bbl</i> )	40.99	42.71
Condensate ( <i>per bbl</i> )	52.89	-
Other NGL ( <i>per bbl</i> )	17.97	25.04
Total NGL ( <i>per bbl</i> )	44.43	25.04
Natural gas ( <i>per Mcf</i> )	2.21	3.69
Netbacks		
Revenue ( <i>per boe</i> )	25.01	33.53
Royalties ( <i>per boe</i> )	(1.14 )	(1.65 )
Operating expenses ( <i>per boe</i> )	(11.42 )	(28.62 )
Transportation ( <i>per boe</i> )	(3.66 )	(48.35 )
Operating netback ( <i>per boe</i> ) <sup>(3)</sup>	8.79	(45.09 )
Adjusted funds flow netback ( <i>per boe</i> ) <sup>(3)</sup>	\$ 9.24	\$ (631.58 )

See "Additional subtotal – Adjusted funds flow from operations" under "Critical Accounting Judgments, Estimates and Policies" in the MD&A and see "Advisories" for further details.

(2) The number of common shares has been adjusted retrospectively to reflect the 10:1 share consolidation, as well as the 0.5996 exchange ratio, as part of the Corporate Acquisition that closed on January 4, 2019.

(3) See "Non-GAAP measures" in the MD&A and see "Advisories" for further details.

For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".

(4) References to crude oil in production amounts are to the product type "tight oil"; and references to natural gas in production amounts are to the product type "shale gas". References to liquids include oil and natural gas liquids (including condensate, butane and propane).

(5) Figures calculated before hedging.

(6) NMN – not meaningful number at this time as Pipestone Energy had minimal production throughout the majority of 2019.

(7) Prior period production and average realized price figures have been adjusted to conform with current period presentation.

## 2020 CAPITAL PROGRAM AND OPERATIONS UPDATE

A photo accompanying this announcement is available at  
<https://www.globenewswire.com/NewsRoom/AttachmentNg/ae9240c0-76a1-42c3-9ced-c4dec1a3affd>

### 6-24 Well Results & Corporate Production Management:

As previously disclosed, Pipestone Energy initiated production on 6 new wells from two separate producing benches on its 6-24 pad in early March. By the end of April all six wells have produced for approximately 30 days.

The Company is very pleased with the production results thus far with average IP30 production results included in the table below:

#### 6-24 Pad – IP30 Avg. Per Well Results

Wellhead Condensate	<i>bb/d</i>	845
Raw Natural Gas	<i>Mcf/d</i>	3,303
Condensate-Gas-Ratio (&ldquo;CGR&rdquo;)	<i>bb/Mmcf</i>	256

Also, in Q1, the 9-14 pad was flow tested in line and achieved encouraging test rates with the pad CGR averaging 105 bbl/MMcf. Permanent well site equipment will be installed this summer to allow for additional evaluation.

However, in response to the current commodity price weakness, Pipestone Energy has halted its 2020 capital spending program and is now also suspending forward 2020 production guidance. Production in 2020 will be prudently managed to maximize cash flow, satisfy take-or-pay commitments, and reserve as much condensate production for future realization in what is expected to be an improved pricing environment. To achieve this outcome the Company shut-in production from the 6-24 pad-site at the end of April and expects to bring it on stream again in Q3 2020. In addition, the recently completed 6-30 pad-site is expected to be available for production in July but is planned to be reserved for start-up until October 2020.

With both the 6-24 and 6-30 pad-sites currently shut-in, the Company has significant productive capacity behind pipe. Current estimated corporate production rates in May are 58 mmcf/d and 5,700 bbls/d liquids or 15,500 boe/d with the majority of the production from the 19 wells on the 15-14 and 3-1 pad sites.

### Continued Capital Cost Improvements:

Pipestone Energy continued to execute and improve on its drilling, completion, and equip & tie in costs through its 2020 capital program. During the quarter, the wells on the 6-30 pad-site were drilled in an average of 15.1 days for an average cost of approximately \$2.1 million per well. In April 2020, the Company successfully executed completion operations at its 6-30 pad using two frac spreads with an average completion cost of approximately \$2.9 million per well. All-in DCE&T costs for the 6-30 pad are expected to be approximately \$5.5 million. These realized efficiency gains are substantial and will significantly impact the sustainability of our future growth plan. The Company’s all-in future DCE&T cost estimates have decreased from \$7.1 million to \$6.0 million for our 2,500 meter type curve well. The successful deployment of dual frac spreads will allow us to plan future pad development with the potential to lower cycle times to a target of 100 days for a six well pad. Further, the Company continues to advance its ESG initiatives through fuel switching to natural gas for completion and drilling operations, and handling all water through Pipestone-owned pipelines and facilities without the need for additional truck traffic. The Company continues to engage with community residents who remain supportive of Pipestone Energy and its operations.

### G&A Cost Reductions:

In light of the low commodity price environment the Company has identified and implemented a combination

of measures which it expects will lower 2020 annual gross G&A before capitalization, from an original 2020 budget of \$13 million to a revised forecast total of approximately \$10 million. This translates to an expected annual reduction of 23%.

#### Risk Management:

Pipestone Energy anticipates the near term cash flow volatility in 2020, due to the recent collapse in global crude prices, to be partially mitigated through its hedging program with approximately 4,800 bbls/day of oil sold forward at a price of C\$59.05/bbl in Q2 and Q3, and 2,000 bbls/day sold forward at C\$58.25/bbl in Q4. Approximately 34 mmcfd of natural gas production has been hedged for the balance of 2020 at C\$1.70/Mcf. For 2021, the Company has approximately 26 mmcfd of natural gas production hedged at C\$2.39/Mcf.

As of April 30, 2020, the Company has recognized realized hedging gains of approximately \$12 million in 2020 (\$6.2 million in Q1), and had an additional mark-to-market position on forward hedges of approximately \$14 million.

#### OUTLOOK

In response to the current commodity price weakness, as a result of the spread of the COVID-19 virus, which has slowed the world economy and drastically reduced demand for oil, Pipestone Energy has halted its 2020 capital spending program. Furthermore, given the uncertain magnitude, duration, and potential ongoing impacts of the COVID-19 virus, the Company is withdrawing its previous guidance for production and cash flow.

The year-to-date development expenditures were concentrated around what are the most condensate-rich well results realized to date and were focused approximately 85% to half-cycle DCE&T expenditures. With 12 new 2020 vintage wells available to the Company on the 6-24 and 6-30 pad-sites, 2020 production will be dynamically managed to maximize cash flow, satisfy take-or-pay commitments, and reserve as much condensate production as possible for future realization.

When market conditions improve, the Company will return to delivering a balanced combination of high production growth coupled with a focus on generating top decile returns on capital employed. In the meantime, Pipestone Energy is well positioned to survive these unprecedented times with a solid balance sheet and sufficient available liquidity.

Conference Call May 13, 2020  
9:00 a.m. MT (11:00 a.m. ET)

Pipestone Energy will host a conference call on May 13, 2020, starting at 9:00 a.m. MT (11:00 a.m. ET). To participate please dial toll free in North America (866) 953-0776 or International (630) 652-5852 and enter 1688277 when prompted. *Note that due to increased call volumes handled by Pipestone's conference call provider due to COVID-19, it is recommended that participants dial in 15 minutes prior to the start of the call.*

An archived recording of the conference call will be available shortly after the event and will be available until May 20, 2020. To access the replay please dial toll free in North America (855) 859-2056 or International (404) 537-3406 and enter 1688277 when prompted.

#### Advisory Regarding Non-GAAP Measures

This news release includes references to financial measures commonly used in the oil and natural gas industry. The terms "operating netback", "adjusted funds flow netback", "available funding", "CROIC" and "ROCE" are not defined under IFRS, which have been incorporated into Canadian GAAP, as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting, are not separately defined under GAAP, and may not be comparable with similar measures presented by other companies.

Management believes the presentation of the non-GAAP measures provide useful information to investors

and shareholders as the measures provide increased transparency and the opportunity to better analyze and compare performance against prior periods.

#### Operating netback and adjusted funds flow netback

Operating netback is calculated on a per-unit-of-production basis and is determined by deducting royalties, operating and transportation expenses from liquids and natural gas sales, after adjusting for realized commodity financial derivative instrument gains or losses.

Adjusted funds flow netback reflects funds flow on a per-unit-of-production basis and is determined by dividing funds flow by total production on a per-boe basis. Adjusted funds flow netback can also be determined by deducting G&A, transaction costs and cash financing expenses and adding financing income on a per-unit-of-production basis from the operating netback.

Operating netback and funds flow netback are common metrics used in the oil and natural gas industry and are used by Company management to measure operating results on a per boe basis to better analyze and compare performance against prior periods, as well as formulate comparisons against peers.

#### Available funding

Available funding is comprised of adjusted working capital and undrawn portions of the Company's credit facility. Adjusted working capital is comprised of current assets less current liabilities on the Company's consolidated statement of financial position and excludes the current portion of financial derivative instruments and lease liabilities. The available funding measure allows management and others to evaluate the Company's short-term liquidity.

#### CROIC and ROCE

Adjusted EBITDA is calculated as profit or loss before interest, income taxes, depletion, depreciation and amortization, adjusted for certain non-cash and extraordinary items primarily relating to unrealized gains and losses on financial instruments. Adjusted EBITDA is used to calculate CROIC. Adjusted EBIT is calculated as adjusted EBITDA less depletion and depreciation. Adjusted EBIT is used to calculate ROCE.

CROIC is determined by dividing adjusted EBITDA by the gross carrying value of the Company's oil and gas assets at a point in time. For the purposes of the CROIC calculation, the net carrying value of the Company's exploration and evaluation assets, property and equipment and ROU assets, is taken from the Company's consolidated statement of financial position, and excludes accumulated depletion and depreciation as disclosed in the financial statement notes to determine the gross carrying value.

ROCE is determined by dividing adjusted EBIT by the carrying value of the Company's net assets. For the purposes for the ROCE calculation, net assets are defined as total assets on the Company's consolidated statement of financial position less current liabilities at a point in time.

CROIC and ROCE allow management and others to evaluate the Company's capital spending efficiency and ability to generate profitable returns by measuring profit or loss relative to the capital employed in the business. See MD&A for further details.

#### Advisory Regarding Forward-Looking Statements

In the interest of providing shareholders of Pipestone Energy and potential investors information regarding Pipestone Energy, this news release contains certain information and statements ("forward-looking statements") that constitute forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking statements relate to future results or events, are based upon internal plans, intentions, expectations and beliefs, and are subject to risks and uncertainties that may cause actual results

or events to differ materially from those indicated or suggested therein. All statements other than statements of current or historical fact constitute forward-looking statements. Forward-looking statements are typically, but not always, identified by words such as "anticipate", "estimate", "expect", "intend", "forecast", "continue", "propose", "may", "will", "should", "believe", "plan", "target", "objective", "project", "potential" and similar or other expressions indicating or suggesting future results or events.

Forward-looking statements are not promises of future outcomes. There is no assurance that the results or events indicated or suggested by the forward-looking statements, or the plans, intentions, expectations or beliefs contained therein or upon which they are based, are correct or will in fact occur or be realized (or if they do, what benefits Pipestone Energy may derive therefrom).

In particular, but without limiting the foregoing, this news release contains forward-looking statements pertaining to: the 2020 production management strategy; the 2020 revised capital budget; installation of wellsite facilities at Pipestone Energy's the 09-14 pad-site; plans for the Company to bring Pipestone Energy's 6-24 pad-site production on stream again in Q3 2020; Pipestone Energy's 6-30 pad-site being available in July but plans for it to be reserved for start-up in October 2020, estimated DCE&T costs for the 6-30 pad-site, all-in future DCE&T costs and G&A cost reductions.

With respect to the forward-looking statements contained in this news release, Pipestone Energy has assessed material factors and made assumptions regarding, among other things: future commodity prices and currency exchange rates, including consistency of future oil, natural gas liquids (NGLs) and natural gas prices with current commodity price forecasts; the economic impacts of the COVID-19 pandemic and current oversupply of oil caused by OPEC; Pipestone Energy's continued ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the predictability of future results based on past and current experience; the predictability and consistency of the legislative and regulatory regime governing royalties, taxes, environmental matters and oil and gas operations, both provincially and federally; Pipestone Energy's ability to successfully market its production of oil, NGLs and natural gas; the timing and success of drilling and completion activities (and the extent to which the results thereof meet expectations); Pipestone Energy's future production levels and amount of future capital investment, and their consistency with Pipestone Energy's current development plans and budget; future capital expenditure requirements and the sufficiency thereof to achieve Pipestone Energy's objectives; the successful application of drilling and completion technology and processes; the applicability of new technologies for recovery and production of Pipestone Energy's reserves and other resources, and their ability to improve capital and operational efficiencies in the future; the recoverability of Pipestone Energy's reserves and other resources; Pipestone Energy's ability to economically produce oil and gas from its properties and the timing and cost to do so; the performance of both new and existing wells; future cash flows from production; future sources of funding for Pipestone Energy's capital program, and its ability to obtain external financing when required and on acceptable terms; future debt levels; geological and engineering estimates in respect of Pipestone Energy's reserves and other resources; the accuracy of geological and geophysical data and the interpretation thereof; the geography of the areas in which Pipestone Energy conducts exploration and development activities; the timely receipt of required regulatory approvals; the access, economic, regulatory and physical limitations to which Pipestone Energy may be subject from time to time; and the impact of industry competition.

The forward-looking statements contained herein reflect management's current views, but the assessments and assumptions upon which they are based may prove to be incorrect. Although Pipestone Energy believes that its underlying assessments and assumptions are reasonable based on currently available information, undue reliance should not be placed on forward-looking statements, which are inherently uncertain, depend upon the accuracy of such assessments and assumptions, and are subject to known and unknown risks, uncertainties and other factors, both general and specific, many of which are beyond Pipestone Energy's control, that may cause actual results or events to differ materially from those indicated or suggested in the forward-looking statements. Such risks and uncertainties include, but are not limited to, volatility in market prices and demand for oil, NGLs and natural gas and hedging activities related thereto; the ability to successfully integrate Blackbird's and Pipestone Oil's historical businesses and operations; general economic, business and industry conditions; variance of Pipestone Energy's actual capital costs, operating costs and economic returns from those anticipated; the ability to find, develop or acquire additional reserves and the availability of the capital or financing necessary to do so on satisfactory terms; and risks related to the exploration, development and production of oil and natural gas reserves and resources. Additional risks, uncertainties and other factors are discussed in the MD&A and in Pipestone Energy's annual information form dated March 17, 2020, copies of which are available

electronically on Pipestone Energy's SEDAR at [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained in this news release are made as of the date hereof and Pipestone Energy assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. All forward-looking statements herein are expressly qualified by this advisory.

#### Initial Production Rates and Short-Term Test Rates

This document may disclose test rates of production for certain wells over short periods of time, which are preliminary and not determinative of the rates at which those or any other wells will commence production and thereafter decline. Short-term test rates are not necessarily indicative of long-term well or reservoir performance or of ultimate recovery. Although such rates are useful in confirming the presence of hydrocarbons, they are preliminary in nature, are subject to a high degree of predictive uncertainty as a result of limited data availability and may not be representative of stabilized on-stream production rates.

Production over a longer period will also experience natural decline rates, which can be high in the Montney play and may not be consistent over the longer term with the decline experienced over an initial production period. Initial production or test rates may also include recovered "load" fluids used in well completion stimulation operations. Actual results will differ from those realized during an initial production period or short-term test period, and the difference may be material.

#### Basis of Barrel of Oil Equivalent

Petroleum and natural gas reserves and production volumes are stated as a "barrel of oil equivalent" (boe), derived by converting natural gas to oil equivalency in the ratio of 6,000 cubic feet of gas to one barrel of oil. Readers are cautioned that boe figures may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cubic feet of gas to one barrel of oil is based on energy equivalency, which is primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead.

#### CGR

References herein to "CGR" mean condensate/gas ratio and is expressed as a volume of condensate and NGLs (expressed in barrels) per million cubic feet (mmcf) of natural gas.

#### DCE&T

This news release contains certain other oil and gas metrics, including DCE&T (drilling, completion, equipment and tie-in costs), which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. DCE&T includes all capital spent to drill, complete, equip and tie-in a well.

#### [Pipestone Energy Corp.](#)

[Pipestone Energy Corp.](#) is an oil and gas exploration and production company with its head office located in Calgary, Alberta. The company is focused on developing its pure-play condensate-rich Montney asset in the Pipestone area near Grande Prairie. Pipestone Energy is committed to building long term value for our shareholders and values the partnerships that it is developing within its operating community. Pipestone Energy shares trade under the symbol PIPE on the TSX Venture Exchange. For more information, visit [www.pipestonecorp.com](http://www.pipestonecorp.com).

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