

Pipestone Energy Corp. Announces a \$70 Million Convertible Preferred Share Financing Transaction to Fund an Accelerated Development Plan

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And Announces its Annual and Special Meeting of Shareholders

CALGARY, Aug. 05, 2020 - [Pipestone Energy Corp.](#) (“Pipestone Energy” or the “Company”) is pleased to announce that it has entered into subscription agreements with Riverstone V EMEA Holdings Cooperatief U.A. (“Riverstone”), GMT Capital Corp. (“GMT Capital”), and GMT Exploration Company LLC (“GMT Exploration” and collectively with Riverstone and GMT Capital, the “Investors”) in respect of the financing (the “Financing”).

Pursuant to the terms of the subscription agreements, the Investors have agreed to acquire convertible preferred shares (the “CP Shares”) in the Company with an initial liquidation preference of \$70 million (the “Liquidation Preference”), equivalent to 70,000 CP Shares. The CP Shares have a conversion price of \$0.85 per Common Share (the “Conversion Price”), and have a term of five years. The CP Shares were sold at a price of \$970 per share, and entitle the Investors to an annual dividend of 6.5% per year that is payable quarterly in-kind, or in cash after 2 years from issuance, at the sole option of Pipestone Energy. At close, the expected proceeds to Pipestone Energy are approximately \$67 million, net of anticipated transaction costs.

“This financing is an exceptional opportunity for Pipestone Energy, providing the Company with the necessary capital to accelerate development activities in the fall of 2020”; said Paul Wanklyn, President and CEO of Pipestone Energy. *“Pipestone can deliver attractive full-cycle returns at US\$40+ WTI. The accelerated development program brings forward value and materially increases our future free cash flow generation capability. The significant financing commitment by our largest existing investors speaks to the high-quality nature of Pipestone’s assets, as well as the support for our business plan and team.”*

Description of the Financing

The CP Shares are, subject to certain conditions, convertible into common shares of the Company (the “Common Shares”) at a conversion price of \$0.85 per Common Share, subject to customary adjustments. After two years, if among other things, the closing price of the Common Shares is above 200% of the Conversion Price for 20 days over a 30-day trading period, the CP Shares will automatically convert into Common Shares at the Conversion Price. The Conversion Price represents a 70% premium to the 30-day volume weighted average trading price of the Common Shares on August 4, 2020, the last trading day prior to entering into the subscription agreements. Holders of the CP Shares will be entitled to vote on all shareholder matters alongside existing holders of the Common Shares on an “as-converted” basis. Post the Financing, the CP Shares will represent approximately 30% of Pipestone Energy’s pro forma shares outstanding on a fully diluted basis. After the five year term the CP Shares will automatically convert into Common Shares at either the Conversion Price, if the Common Shares are trading at a price in excess of the Conversion Price or, otherwise, at a price based on the previous 20-day volume weighted average share price multiplied by 95%.

While the CP Shares will not be listed on any stock exchange, the Company has applied to reserve the underlying Common Shares issuable upon conversion of the CP Shares for listing on the TSX Venture Exchange (the “TSXV”) and received conditional approval. Final listing approval from the TSXV is subject to the satisfaction of certain filing requirements by the Company.

Closing of the Financing is subject to shareholder approval, including (i) a majority of not less than

66⅔ percent of votes cast in person or by proxy and (ii) a “majority of the minority” vote to be held in accordance with Policy 5.9 of the TSX-V and Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

The Company’s board of directors, on recommendation from an independent committee of directors, has determined that the Financing is in the best interest of the Company and, after receiving advice from its financial and legal advisors, has unanimously approved the Financing. In addition, the Company’s three largest shareholders, Canadian Non-Operated Resources L.P. (“CNOR”), GMT Capital and GMT Exploration, have entered into voting support agreements to support the Financing. CNOR holds approximately 54.5% of the outstanding Common Shares. GMT Capital and GMT Exploration collectively own approximately 13.8% of the outstanding Common Shares.

The shareholder vote will be held at Pipestone Energy’s Annual General and Special Meeting to be held on September 14, 2020 at 2:30pm (Calgary time) at the Calgary Petroleum Club (McMurray Room). Further details about the Financing and other annual and special items of business will be described in a management information circular to be mailed to the shareholders on or about August 17, 2020.

At closing of the Financing, the Company will enter into: (i) a registration rights agreement with Riverstone and GMT Capital that provides customary demand and piggy-back registration rights and (ii) nomination agreements with Riverstone and GMT Capital that provide for certain director nomination rights.

Strategic Rationale of the Financing

- Highly Economic Drilling Inventory at Current Commodity Prices
 - ? The Company has reduced drilling and completion costs approximately by 40% since early 2019
 - ? New wells are expected to generate an IRR of approximately 50% and deliver a payout of less than 2 years on a half-cycle basis at US\$40 WTI
- Optimized Development and Returns
 - ? Installed infrastructure capacity supports production growth from 17,000 boe/d currently to approximately 34,000 - 38,000 boe/d average in 2022
 - ? Minimal infrastructure capital required to further optimize and de-bottleneck to 40,000 boe/d of capacity
 - ? Significant capital investment by Pipestone Energy through a continuous drilling and completion program should result in optimized corporate returns
 - ? The Company expects to generate \$75 million in annual free cash flow above maintenance capital in 2022+ at US\$44 WTI or \$115 million at US\$50 WTI
- Enhanced Scale and Improved Competitive Positioning
 - ? Peer leading production and cash flow per share growth and leading net debt to cash flow
 - ? Execution of the growth plan through 2022 is expected to position Pipestone Energy as one of the larger condensate-rich Montney focused producers
- Attractive Financing Terms for Pipestone Energy and its Shareholders
 - ? Conversion Price is an attractive premium to current common share trading price
 - ? Execution of Pipestone Energy’s accelerated development plan is expected to generate higher per share metrics on a fully diluted basis than the status quo at current commodity prices
 - ? Materially enhances the financial liquidity available to the Company

Credit Facility

In conjunction with the Financing, the Company has re-confirmed and executed an amendment (the “Amendment”) to its \$225 million reserve-based lending facility (the “Credit Facility”) with its corporate banking syndicate, consisting of National Bank Financial Inc., Bank of Montreal, ATB Financial, and Canadian Western Bank. In light of the significant equity capital injection and accelerated capital plan, the banking syndicate has agreed to forgo the normal fall borrowing base review with the next redetermination scheduled for May 2021. In addition, the previously imposed capital spending restrictions from the June 2020 re-determination have been removed, and Pipestone Energy has committed to implement a robust hedging program with respect to expected condensate volumes through calendar 2021.

On July 16, 2020, Pipestone Energy also closed on a \$15 million unsecured letter of credit facility under

Export Development Canada's performance security guarantee ("PSG") program. The Company has transferred its ~\$14 million letters of credit from its Credit Facility to the PSG facility, further enhancing the liquidity available under the Credit Facility.

Pro Forma Liquidity and Net Debt

As at June 30, 2020, the Company had \$183 million drawn on its Credit Facility, excluding letters of credit, and a \$13 million working capital deficit, for a combined net debt of approximately \$196 million. Pro forma, including net proceeds of \$67 million from the Financing, Pipestone Energy will have net debt of approximately \$129 million and approximately \$109 million of available capacity remaining on its Credit Facility.

Operations Update

Throughout Q2 2020, Pipestone Energy actively managed its production in response to increased volatility in crude oil prices and condensate differentials that prevailed during the quarter. Specifically, condensate production was optimized month to month by shutting in the seven well 6-24 pad during May and gradually bringing it back on in response to improved pricing during June. Production for the quarter averaged approximately 16,700 boe/d, based on field estimates for June 2020, which was comprised of 43% liquids (including 29% condensate), and 57% natural gas. The Company benefited from strong plant run-times at both the Keyera Wapiti Gas Plant and Tidewater Pipestone Gas Plant during the quarter of ~96% (compared to ~70% during Q1 2020). The Company has significant incremental production capability with six wells recently completed and tied-in on the 6-30 pad. The wells on this pad are being tested during July and August, and are expected to be brought on-stream permanently by Q4 2020.

Accelerated Development Plan

Contingent on closing the Financing, Pipestone Energy will be increasing its 2020 capital guidance from \$60 million to \$110 million. In September 2020, the Company expects to utilize two rigs to drill six wells on its 3-12 pad, which will be completed in November and available for production by year-end. On the 8-15 pad, one rig will drill four additional wells starting in November 2020, which are expected to be completed and brought on-stream during Q1 2021.

In 2021, the Company plans to undertake a continuous drilling program, utilizing up to two rigs along the North-South gathering system. The program will be designed to optimize the infrastructure capital spent to date. In 2021, Pipestone Energy aims to bring 28 - 32 new wells on production, anticipates capital spending to be ~\$210 million (90% of which will be on drilling, completion, and equip & tie-in costs) and expects to produce between 24,000 – 26,000 boe/d.

2020 – 2021 Development Map

A photo accompanying this announcement is available at <https://www.globenewswire.com/NewsRoom/AttachmentNg/ddf379f2-d36e-45e7-b634-2a34a7536584>

Expected Development Activity Summary

	# Wells Drilled	# Wells Completed	# of New Wells on Production
2019 Actuals	10	16	20
H1 2020 Actuals	6	6	12
H2 2020 Forecast	10	6	-
2021 Forecast	30 - 36	30 - 36	28 - 32

3 Year Corporate Growth Trajectory ⁽¹⁾

2020
Full Year Production (boe/d) **26,000 – 36,000**

Cash Flow (\$MM) ⁽²⁾⁽³⁾	\$205
Capex (\$MM) ⁽⁴⁾	\$216
YE Net Debt (\$MM) ⁽³⁾	\$266
LTM Debt / CF (x)	4.8x

1. 3 year plan derived by utilizing, among other assumptions, historical Pipestone Energy production performance and current capital and operating cost assumptions held flat for illustration only. Budgets and forecast beyond 2020 have not been finalized and are subject to a variety of factors. Maximum total draw on the Company's Credit Facility in the forecasts shown would be less than C\$225MM.
2. Price assumptions: Rem. 2020 = US\$40 WTI; \$1.90 AECO; \$0.74 CAD | 2021 = US\$42 WTI; \$2.25 AECO; \$0.74 CAD | 2022 = US\$44 WTI; \$2.25 AECO; \$0.74 CAD.
3. See “Advisory Regarding non-GAAP Measures”. Forecast represents the mid-points of the anticipated production ranges. Net Debt excludes Convertible Preferred Shares as no cash liability and includes Working Capital Deficit.
4. Capex includes all anticipated DCE&T, infrastructure and other capital expenditures, but excludes capitalized G&A. 2020 CAPEX increased from \$60 million previously.

The Company anticipates that the accelerated H2 2020 and 2021E development activity that will be undertaken as a direct result of the Financing will position Pipestone Energy to fill in-field infrastructure and generate significant free cash flow above maintenance requirements by YE 2022 at US\$44 WTI, while maintaining significant liquidity and a conservative leverage profile.

Risk Management

The Company will continue its robust commodity price hedging program to reduce the volatility in expected future cash flow relative to the forecast capital expenditures. Currently for full year 2021, Pipestone Energy has ~30,000 GJ/d of AECO natural gas hedged at a weighted-average price of C\$2.28/GJ and ~2,250 bbl/d of Canadian Dollar WTI hedged at a weighted-average price of C\$56.37/bbl.

Advisors

Peters & Co. Limited, National Bank Financial, BMO Capital Markets, and ATB Capital Markets are acting as private placement advisors to Pipestone Energy with respect to the Financing. Osler, Hoskin & Harcourt LLP is acting as Pipestone Energy's legal advisor.

Q2 2020 Financial Statements and Conference Call

Second quarter results are expected to be released before market open on August 12th, 2020. A conference call has been scheduled for August 12th, 2020 at 9:00 a.m. Mountain Daylight Time (11:00 a.m. Eastern Daylight Time) for interested investors, analysts, brokers, and media representatives.

Conference Call Details:

Toll-Free: (866) 953-0776
 International: (630) 652-5852
 Conference ID: 3775111

[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.

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Advisory Regarding Non-GAAP Measures

This news release includes references to financial measures commonly used in the oil and natural gas industry. The terms "free cash flow", "cash flow", "IRR" and "net debt" 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.

"Free cash flow" should not be considered an alternative to, or more meaningful than, cash flow – operating activities as determined in accordance with IFRS, as an indicator of financial performance. Free cash flow is presented to assist management and investors in analyzing operating performance by the business in the stated period. Free cash flow equals cash flow – operating activities plus change in non-cash working capital less maintenance capital expenditures. Maintenance capital is defined as capital expenditures incurred to maintain flat production.

"Cash flow" should not be considered an alternative to, or more meaningful than, cash flow – operating activities as determined in accordance with IFRS, as an indicator of financial performance. Cash flow is presented to assist management and investors in analyzing operating performance by the business in the stated period. Cash flow equals EBITDA less interest expense.

"IRR" or "internal rate of return" is a rate of return measure used to compare the profitability of an investment and represents the discount rate at which the net present value of costs equals the net present value of the benefits. The higher a project's IRR, the more desirable the project.

"Net debt" is a non-GAAP measure that equals total debt outstanding + negative working capital – cash and cash equivalents and includes transaction costs and the proceeds from the completed debt & equity financings. Total debt is calculated as long-term debt, long-term debt due within one year and short-term debt. Net debt is considered to be a useful measure in assisting management and investors to evaluate Pipestone Energy's financial strength.

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: strategic plans and growth strategies; expected IRRs; expectations of timing for the generation of full-cycle returns on capital; estimated production growth; proposed development and drilling plans; use of proceeds from the Financing; returns on capital investment through drilling and completion program; increased capital guidance; plans for cleaning, testing and bringing on-stream Pipestone Energy’s 6-30 pad-site; plans for drilling and completion on Pipestone Energy’s 3-12 pad-site; plans to drill, complete and bring on-stream Pipestone Energy’s 8-15 pad-site; plans to bring 28-32 new wells into production in 2021; future capital spending; three year corporate growth trajectory; and plans to fill in-field infrastructure capacity and generate free cash flow.

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 for the period ended March 31, 2020 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.

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.

Oil and Gas Measures

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.

Half-Cycle Economics

The forecast half-cycle economics include only the cost to drill, complete, equip and tie-in wells. The forecasts do not take into account certain other costs that would be required to construct infrastructure, central processing facilities, regional gathering facilities, condensate stabilization facilities and other infrastructure, nor do they take into account land acquisition costs, corporate overhead (G&A) expenses, financing costs or corporate taxes. Such forecast economics are intended to represent the marginal return of a single well investment. The forecasts present an idealistic view of results that could be achieved in the absence of additional infrastructure costs, operational challenges or downtime.

Full-Cycle Economics

Full-cycle economics are intended to represent a development scenario including adjustments for downtime and facility constraints, additional infrastructure costs and corporate overhead (G&A). Actual results will differ from the forecasts for the reasons described above and because of the risks and risk factors that are described in the "Advisory Regarding Forward-Looking Statements" set forth above.

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