

# Pipestone Energy Corp. Reports Second Quarter 2020 Results

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CALGARY, Aug. 12, 2020 - (PIPE &#8211; TSX-V) [Pipestone Energy Corp.](#) (&#8220;Pipestone Energy&#8221; or the &#8220;Company&#8221;) is pleased to report its Q2 2020 financial and operational results.

Paul Wanklyn, President and CEO said, &#8220;Pipestone Energy nimbly managed its production during the second quarter in response to historic commodity price volatility. Our ability to generate positive cash flow before hedging gains during the quarter, despite record low condensate pricing, is a testament to our asset quality. With the recently announced financing and the capital cost improvements demonstrated during this quarter, our Company is on track to continue delivering efficient production and cash flow growth with top decile returns on capital over the next two years&#8221;.

## SECOND QUARTER 2020 CORPORATE HIGHLIGHTS

- During the quarter the Company actively managed its production to meet third-party gathering and processing commitments by primarily flowing its leaner, higher rate gas wells located at the 15-14 and 3-01 pad-sites, limiting production from the higher condensate wells on the 6-24 pad and deferring the on-stream date of the 6-30 pad until later this fall;
- Production averaged 16,772 boe/d (comprised of 29% condensate and 43% total liquids) for the three months ended June 30, 2020.
- With a robust hedging program in place the Company realized commodity hedge gains of \$10.4 million during the three months ended June 30, 2020, which protected cash flows in the period;
- The Company generated revenues and adjusted funds flow of \$26.4 million and \$11.2 million, respectively, during the three months ended June 30, 2020, despite the low commodity prices received; and
- During the quarter the Company concluded its successful H1 2020 completions program as planned with 6 wells frac&#8217;d at the 6-30 pad-site in April 2020 under its original budget by 20%.

## [Pipestone Energy Corp.](#) &#8211; Financial and Operating Highlights

(\$ thousands, except per unit and per share amounts)	Three months ended June 30, 2020		Six months ended June 30, 2019	
	2020	2019	2020	2019
<b>Financial</b>				
Sales of liquids and natural gas	\$ 26,380	\$ 5,457	\$ 58,397	\$ 5
Cash from (used in) operating activities	175	777	30,892	1
Adjusted funds flow from (used in) operations <sup>(1)</sup>	11,231	2,423	23,051	1
Per share, basic and diluted <sup>(2)</sup>	0.06	0.01	0.12	0
Income (loss)	19,486	4,869	(3,945)	5
Per share, basic and diluted <sup>(2)</sup>	0.10	0.03	(0.02)	0
Capital expenditures	19,893	46,835	49,047	9
Acquisitions	\$ -	\$ 91	-	1
Working capital (deficit) (end of period)			(16,781)	1
Bank debt (end of period)			183,248	1
Shareholders' equity (end of period)			367,298	3
Available funding (end of period) <sup>(3)</sup>			\$ 13,421	\$ 4
Annualized cash return on invested capital (CROIC) (%) <sup>(3)</sup>	6	NMN <sup>(6)</sup>	8.9	% N
Annualized return on capital employed (ROCE) (%) <sup>(3)</sup>	0.5	NMN <sup>(6)</sup>	0.7	% N
Shares outstanding (end of period) <sup>(2)</sup>			190,295	1

Weighted-average basic shares outstanding <sup>(2)</sup>	190,136	189,624	189,990	
Weighted-average diluted shares outstanding <sup>(2)</sup>	190,253	189,625	190,229	
Operations				
Production				
Crude oil (bbls/d)	104	29	95	
Condensate (bbls/d)	4,781	566	4,368	
Other natural gas liquids (NGL) (bbls/d)	2,306	88	1,786	
Total NGL (bbls/d)	7,087	654	6,154	
Natural gas (Mcf/d)	57,488	4,341	55,017	
Total (boe/d) <sup>(4)</sup>	16,772	1,407	15,419	
Condensate and crude oil (% of total production)	<del>29</del>	<del>43</del>	29	%
Total liquids (% of total production)	<del>43</del>	<del>40</del>	41	%
Benchmark prices				
Crude oil &#8211; WTI (C\$/bbl)	\$ 38.34	\$ 79.98	\$ 49.84	\$
Condensate &#8211; Edmonton Condensate (C\$/bbl)	31.38	73.69	45.75	
Natural gas &#8211; AECO 5A (C\$/GJ)	1.90	1.04	1.91	
Average realized prices <sup>(5)</sup>				
Crude oil (per bbl)	19.88	66.91	29.49	
Condensate (per bbl)	29.21	72.12	39.92	
Other NGL (per bbl)	10.92	29.24	13.42	
Total NGL (per bbl)	23.26	66.35	32.23	
Natural gas (per Mcf)	2.14	3.37	2.18	
Netbacks				
Revenue (per boe)	17.28	42.62	20.81	
Royalties (per boe)	0.28	<del>2.15</del>	(0.37)	)
Operating expenses (per boe)	<del>10.64</del>	<del>13.83</del>	(11.00)	)
Transportation (per boe)	<del>3.32</del>	<del>5.72</del>	(3.47)	)
Operating netback (per boe) <sup>(3)</sup>	3.60	20.92	5.97	
Adjusted funds flow netback (per boe) <sup>(3)</sup>	\$ 7.37	\$ <del>18.93</del>	\$ 8.22	\$

See &#8220;Additional subtotal &#8211; Adjusted funds flow from (used in) operations&#8221; under (1) &#8220;Critical Accounting Judgments, Estimates and Policies&#8221; in the MD&A dated August 12, 2020 and see &#8220;Advisories Regarding Non-GAAP Measures&#8221; 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 &#8220;Advisories Regarding Non-GAAP Measures&#8221; section of the MD&A dated August 12, 2020 and within this press release for further details.

For a description of the boe conversion ratio, see &#8220;Basis of Barrel of Oil Equivalent&#8221;.

(4) References to crude oil in production amounts are to the product type &#8220;tight oil&#8221; and references to natural gas in production amounts are to the product type &#8220;shale gas&#8221;. References to liquids include oil and natural gas liquids (including condensate, butane, and propane).

(5) Figures calculated before hedging.

(6) NMN &#8211; 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.

## Q2 2020 Conference Call

A conference call has been scheduled for August 12<sup>th</sup>, 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

An archived recording of the conference call will be available shortly after the event and will be available until August 19, 2020. To access the replay please dial toll free in North America (855) 859-2056 or International (404) 537-3406 and enter 3775111 when prompted.

[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).

Pipestone Energy Contacts:

Paul Wanklyn President and Chief Executive Officer (587) 392-8407 <a href="mailto:paul.wanklyn@pipestonecorp.com">paul.wanklyn@pipestonecorp.com</a>	Craig Nieboer Chief Financial Officer (587) 392-8408 <a href="mailto:craig.nieboer@pipestonecorp.com">craig.nieboer@pipestonecorp.com</a>
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Dan van Kessel  
VP Corporate Development  
(587) 392-8414  
[dan.vankessel@pipestonecorp.com](mailto:dan.vankessel@pipestonecorp.com)

Advisory Regarding Non-GAAP Measures

Non-GAAP measures

This press 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.

Adjusted funds flow netback reflects adjusted funds flow on a per-unit-of-production basis and is determined by dividing adjusted funds flow by total production on a per-boe basis. Adjusted funds flow netback can also

be determined by deducting G&A, transaction costs, cash financing expenses, adding financing income and adjusting for realized gains/losses on financial derivative instruments on a per-unit-of-production basis from the operating netback.

Operating netback and adjusted 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.

#### *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.

#### *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.

#### *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: future production; future cash flow and returns on capital; and Pipestone Energy's 6-30 pad-site on stream date.

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; the ability to integrate Blackbird's and Pipestone Oil's historical businesses and operations and realize financial, operational and other synergies from the combination transaction completed on January 4, 2019; 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 dated August 12, 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](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.

## 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.

#### TSX Venture Exchange Disclaimer

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