

# Pipestone Energy Corp. Announces Closing of \$70 Million Convertible Preferred Share Financing Transaction and Provides Operations and Risk Management Updates

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CALGARY, Sept. 17, 2020 - [Pipestone Energy Corp.](#) (the "Company"); or the "Company") is pleased to announce that following receipt of overwhelming approval at the annual and special meeting of the shareholders of Pipestone Energy held on September 14, 2020 (the "Shareholder Meeting"), it has closed the previously announced financing (the "Financing") pursuant to subscription agreements with Riverstone V EMEA Holdings Cooperatief U.A. which was subsequently assigned to Riverstone Pipestone LP (the "Riverstone"), certain hedge fund and private client accounts of GMT Capital Corp. (the "GMT Capital"), and GMT Exploration Company LLC (the "GMT Exploration"); and collectively with Riverstone and GMT Capital, the "Investors").

Pursuant to the terms of the Financing, the Investors acquired convertible preferred shares (the "CP Shares") in the Company with an initial liquidation preference of \$70 million, equivalent to 70,000 CP Shares. The CP Shares have a conversion price of \$0.85 per common share of Pipestone Energy (the "Common Shares") 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. The proceeds to Pipestone Energy are approximately \$67 million, net of anticipated transaction costs. At closing of the Financing, the Company entered 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. Further details regarding the CP Shares, the Financing, and related matters were contained in a management information circular of the Company dated August 10, 2020 mailed to shareholders of record as of August 11, 2020, in connection with the Shareholder Meeting.

While the CP Shares will not be listed on any stock exchange, the Company has reserved the underlying Common Shares issuable upon conversion of the CP Shares for listing on the TSX Venture Exchange (the "TSXV") and received TSXV approval. The CP Shares and underlying Common Shares are subject to a 4-month hold period from the date of issuance of the CP Shares under applicable Canadian securities laws. 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 represent approximately 30% of Pipestone Energy's pro forma shares outstanding on a fully diluted basis.

Osler, Hoskin & Harcourt LLP acted as Pipestone Energy's legal advisor. Bennett Jones LLP and Vinson & Elkins LLP acted as legal advisors to Riverstone.

As previously disclosed in the Company's news release dated August 5, 2020, utilizing proceeds from the Financing the Company is pursuing the resumption of its development plan beginning in September 2020.

## 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	2021	2022
Full Year Production (boe/d)	15,000 &#8211; 16,000	24,000 &#8211; 26,000	34,000 &#8211; 38,000
Cash Flow (\$MM) <sup>(2)(3)</sup>	\$38	\$135	\$205
Capex (\$MM) <sup>(4)</sup>	\$108	\$210	\$215
YE Net Debt (\$MM) <sup>(3)</sup>	\$180	\$255	\$265
LTM Debt / CF (x)	4.8x	1.8x	1.3x

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. The Company expects to have sufficient liquidity under its existing C\$225MM Credit Facility, including the management of working capital, to execute the development program; Pipestone Energy also expects that its credit availability will grow as a result of significantly increased production and proved developed reserves over the next two years.
2. Price assumptions: Rem. 2020 = September 14, 2020 strip pricing | 2021 = US\$42 WTI; \$2.25 AECO; \$0.74 CAD | 2022 = US\$44 WTI; \$2.25 AECO; \$0.74 CAD.
3. See &#8220;Advisory Regarding non-GAAP Measures&#8221;. 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 H2 2020 and 2021E development activity will allow Pipestone Energy to fill the currently built in-field infrastructure and position it to be almost free cash flow neutral in 2022E, inclusive of its growth capital spend. In addition, it is expected the growth program will result in improved leverage metrics each year.

Additionally, the Company expects to generate significant free cash flow above its maintenance requirements after 2022, which at that point could be directed towards a combination of growth and shareholder returns.

## Operations Update

Pipestone Energy kicked off drilling operations on the 3-12 pad in early September 2020. This pad is expected to be completed in November and available for production by year-end 2020.

The Keyera Wapiti Gas Plant (&#8220;Keyera Plant&#8221;) continues to be down with an unplanned outage relating to an issue relating to the Waste Heat Recovery System. Keyera Corp. (&#8220;Keyera&#8221;) has made positive progress on its repairs to the affected equipment and believes that the Keyera Plant will be operational at full capacity during the week of September 21<sup>st</sup>, 2020. As noted in the table above, based on this expected timeline, the Company is re-instating its 2020 annual production guidance to 15,000 &#8211; 16,000 boe/d with a proportionate decrease in its cash flow, and year end net debt guidance unchanged. If the Company receives information that materially changes the expected timeline to repair the Keyera Plant, Pipestone Energy will provide a further update to the market.

## Risk Management Update

To support its growth capital program in 2021, the Company continues to implement a robust commodity price risk management program. Currently for full year 2021, the Company is hedged ~2,800 bbl/d of Canadian Dollar WTI at a weighted average price of ~C\$57/bbl and has ~40,000 GJ/d of AECO natural gas hedged at a weighted-average price of \$2.32/GJ. Additionally, Pipestone Energy has begun to layer on Edmonton Condensate differential hedges for Q1 2021, with 2,000 bbl/d swapped at an average US\$0.13/bbl discount to WTI.

[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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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", 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 from 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 from 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 from 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.

"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; our expected development activity summary and three-year corporate growth trajectory, including expectations for number of wells to be drilled, completed and on production and three-year production growth, cash flow, capex, net debt and LTM Debt / Cash Flow; expectations to fill in-field infrastructure and be free cash flow neutral; expected improvements to leverage metrics; expected free cash flow above maintenance requirements and plans for use thereof; expected completion and production date for pad 3-12; and timing that the Keyera Plant will be operational and annual productions guidance, cash flow and net debt guidance assuming it is operational; .

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 June 30, 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).

Certain information in this news release is "financial outlook"; within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure of the company's reasonable expectations of our anticipate results. The financial outlook is provided as of the date of this news release. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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.

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