

Pipestone Energy Corp. Reports Record First Quarter 2021 Results and Provides an Operations Update

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CALGARY, May 12, 2021 - (PIPE - TSX) [Pipestone Energy Corp.](#) ("Pipestone" or the "Company") is pleased to report its Q1 2021 financial and operational results, as well as provide an update on its operations.

Pipestone continues to efficiently grow its highly economic condensate-rich Montney asset. The Company is well on track to deliver its 2021 production guidance of 24,000 to 26,000 boe/d. The increase in natural gas and condensate prices, coupled with improving capital efficiencies and strong well results, positions Pipestone to deliver significant annual free cash flow for shareholders beginning in Q4 2021 and beyond. Pipestone also generated strong returns on invested capital during the quarter, with annualized ROCE and CROIC of 10.9% and 16.5% respectively, demonstrating the high-quality nature of the Company's asset base.

FIRST QUARTER 2021 CORPORATE HIGHLIGHTS:

- Record average quarterly production of 21,595 boe/d (32% condensate, 46% total liquids), a 22% quarterly increase over Q4 2020 and a 54% increase over Q1 2020;
- Improvement in operating netback to a corporate record of \$17.54/boe, an increase of 74% over Q4 2020 and a 29% increase over Q1 2020;
- The Company generated record revenue of \$71.5 million and record adjusted funds flow from operations of \$28.2 million (\$0.15 per share basic and \$0.10 per share fully diluted);
- Pipestone commenced its 2021 capital program with 7 wells drilled and rig-released and 6 wells completed during the first quarter of 2021. Total capital expenditures, including capitalized G&A, were \$46.3 million during the three months ended March 31, 2021; and
- Subsequent to March 31, 2021, Pipestone successfully redetermined its reserve-based loan ("RBL") and maintained its borrowing capacity at \$225.0 million on a fully conforming basis. The revolving period of the RBL was extended to May 30, 2022 with an additional one-year term out period thereafter. The next redetermination is now scheduled for November 30, 2021.

PIPESTONE DEVELOPMENT MAP:

<https://www.globenewswire.com/NewsRoom/AttachmentNg/8bd583f3-cd15-497d-a6bc-93ba50bd87cc>

RECENT OPERATIONS HIGHLIGHTS:

- Sustained Production Growth: Based on field estimates, April 2021 production averaged ~22,850 boe/d (31% condensate, 44% total liquids), with no new wells brought on production since the three well 8-15 pad in February. The Company expects to bring 18 additional wells on production during 2021, including three wells on the 6-13 pad in May, and six wells on the 15-25 pad in July. The 6-13 pad includes one additional Lower Montney well, following up on the recently disclosed Lower Montney success at 3-12.

Construction and commissioning of the production facilities and pipeline connecting Pipestone's 6-30 pad to the Veresen Midstream 16-28 battery and compressor station remains on-track for a Q4 2021 start-up, which will add an additional 50 MMcf/d plus associated liquids of processing capacity for Pipestone;

- **Strong Well Results:** The six well 3-12 pad has achieved an IP90 of 490 bbl/d wellhead condensate and 4.3 MMcf/d raw gas (condensate gas ratio, or "CGR", of 114 bbl/MMcf), with the previously disclosed step-out Lower Montney 'D' well performing in-line with the average Montney 'B' well performance. The three well 8-15 pad has achieved an average per well IP60 of 754 bbl/d wellhead condensate and 3.3 MMcf/d raw gas (CGR of 236 bbl/MMcf). The condensate yields at 8-15 are significantly higher than previously seen in the southwest corner of our land base. Pipestone is following up the success on its 8-15 pad with two southeast directed wells on the six well 15-25 pad, located approximately three miles to the north of 8-15;
- **Peer Leading Capital Program Performance:** The six well pad at 15-25 achieved an average drilling cost of \$2.1 million per well with a pad average lateral length of 2,914 metres (~\$752 per lateral metre), in-line with the previous pacesetter pad. Additionally at 15-25, Pipestone drilled its longest lateral since inception, measuring 3,772 metres at a cost of \$2.3 million (~\$617 per lateral metre). At the 6-13 pad, the Company completed three wells, piloting 3.5 tonnes per metre of proppant intensity with an average lateral length of 2,633 metres for \$3.3 million per well. At ~\$358 per tonne of proppant placed, this pad represents the new pacesetter on a dollars per tonne placed basis.

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

(\$ thousands, except per unit and per share amounts)	Three months ended March 31,				
	2021		2020		
Financial					
Sales of liquids and natural gas	\$	71,485	\$	32,017	
Cash from operating activities		18,097		31,067	
Adjusted funds flow from operations ⁽¹⁾		28,242		11,820	
Per share, basic		0.15		0.06	
Per share, diluted ⁽⁴⁾		0.10		0.06	
Income (loss)		(954))	15,541	
Per share, basic and diluted		(0.00))	0.08	
Capital expenditures		46,289		29,154	
Property acquisitions		125		-	
Working capital deficit (<i>end of period</i>)		47,209		7,103	
Bank debt (<i>end of period</i>)		166,659		163,000	
Net debt (<i>end of period</i>) ⁽¹⁾		190,213		187,140	
Shareholders' equity (<i>end of period</i>)		354,747		386,147	
Available funding (<i>end of period</i>) ⁽¹⁾	\$	34,552	\$	23,608	
Undrawn credit facility capacity (<i>end of period</i>)		58,106		47,748	
Annualized cash return on invested capital (CROIC) ⁽¹⁾		16.5	%	9.5	%
Annualized return on capital employed (ROCE) ⁽¹⁾		10.9	%	1.8	%
Shares outstanding (<i>end of period</i>)		191,348		189,906	
Weighted-average number of basic shares outstanding		190,891		189,820	
Weighted-average number of diluted shares outstanding ⁽⁴⁾		276,524		189,942	
Operations					
Production					
Condensate (<i>bbls/d</i>)		7,004		3,955	
Other natural gas liquids (NGLs) (<i>bbls/d</i>)		2,745		1,265	
Total NGLs (<i>bbls/d</i>)		9,749		5,220	
Crude oil (<i>bbls/d</i>)		91		88	
Natural gas (<i>Mcf/d</i>)		70,527		52,546	
Total (<i>boe/d</i>) ⁽²⁾		21,595		14,066	
Condensate and crude oil (<i>% of total production</i>)		33	%	29	%
Total liquids (<i>% of total production</i>)		46	%	38	%
Benchmark prices					
Crude oil - WTI (<i>C\$/bbl</i>)	\$	73.24	\$	61.34	
Condensate - Edmonton Condensate (<i>C\$/bbl</i>)		74.59		60.12	
Natural gas - AECO (<i>C\$/GJ</i>)		3.07		1.92	

Average realized prices ⁽³⁾		
Condensate (per bbl)	65.03	52.89
Other NGLs (per bbl)	26.79	17.97
Total NGLs (per bbl)	54.26	44.43
Crude oil (per bbl)	59.52	40.99
Natural gas (per Mcf)	3.69	2.21
Netbacks		
Revenue (per boe)	36.78	25.01
Realized (loss) gain on commodity risk management contracts (per boe) ⁽⁵⁾	(4.32)	4.82
Royalties (per boe)	(1.66)	(1.14)
Operating expenses (per boe)	(10.64)	(11.42)
Transportation (per boe)	(2.62)	(3.66)
Operating netback (per boe) ^{(1) (5)}	17.54	13.61
Adjusted funds flow netback (per boe) ⁽¹⁾	\$ 14.52	\$ 9.24

⁽¹⁾ See "Non-GAAP measures" section of the press release Advisories for description.

⁽²⁾ For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent". 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 total liquids include oil and natural gas liquids (including condensate, butane and propane).

⁽³⁾ Figures calculated before hedging.

⁽⁴⁾ Weighted-average number of diluted shares outstanding for the purpose of calculating diluted adjusted funds flow from operations per share in the 2021 period presented includes 85,281,505 common shares that are issuable at the discretion of preferred shareholders as of March 31, 2021 for no additional proceeds to the Company. The preferred shares have a total convertible value of \$72.5 million as of March 31, 2021 and are convertible at \$0.85 per common share.

⁽⁵⁾ Realized gain (loss) on commodity risk management contracts reclassified to be included under operating netback for 2021, prior period figures have been adjusted to conform with current presentation.

Increase to the EDC Letter of Credit Facility:

Pipestone has closed a renewal and expansion of its unsecured letter of credit ("LC") facility with Export Development Canada's ("EDC") performance security guarantee ("PSG") program. Effective May 11, 2021, the capacity of this facility is \$22.5 million, an increase from \$15.0 million. Pipestone currently has LCs outstanding of just under \$15 million. The Company expects to increase its total committed LCs over the next 12 months to accommodate the inclusion of additional processing and transportation LCs related to the gas handling arrangement with Veresen Midstream.

First Quarter 2021 Conference Call

A conference call has been scheduled for May 12th, 2021 at 9:00 a.m. Mountain Daylight Time (11:00 a.m. Eastern Daylight Time) to update interested investors, analysts, brokers, and media representatives on the Company's operations and Q1 2021 highlights.

Conference Call Details:

Toll-Free: (866) 953-0776 International: (630) 652-5852 Conference ID: 8981815

An archived recording of the conference call will be available shortly after the event and will be available until May 19, 2021. To access the replay please dial toll free in North America (855) 859-2056 or International (404) 537-3406 and enter 8981815 when prompted.

[Pipestone Energy Corp.](#)

Pipestone Energy is an oil and gas exploration and production company focused on developing its large

contiguous and condensate-rich Montney asset base in the Pipestone area near Grande Prairie. Pipestone Energy is fully funded to grow its production from 15.6 Mboe/d in 2020 to 35 Mboe/d (midpoint) in 2022, while maintaining a conservative leverage profile. Beginning in 2022, the Company expects to generate annual free cash flow above growth and maintenance expenditures. Pipestone Energy is committed to building long term value for our shareholders while maintaining the highest possible environmental and operating standards, as well as being an active and contributing member to the communities in which it operates. Pipestone Energy shares trade under the symbol PIPE on the TSX. For more information, visit www.pipestonecorp.com.

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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 "adjusted funds flow from operations", "free cash flow", "operating netback", "adjusted funds flow netback", "net debt", "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. The reconciliations of these non-GAAP measures to the nearest GAAP measure are discussed in the MD&A dated May 12, 2021, a copy of which is available electronically on Pipestone Energy's SEDAR at www.sedar.com.

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.

Adjusted funds flow from operations

Pipestone Energy uses "adjusted funds flow from operations" (cash from operating activities before changes in non-cash working capital and decommissioning provision costs incurred), a measure that is not defined under IFRS. Adjusted funds flow from operations should not be considered an alternative to, or more meaningful than, cash from operating activities, income (loss) or other measures determined in accordance with IFRS as an indicator of the Company's performance. Management uses adjusted funds flow from operations to analyze operating performance and leverage and believes it is a useful supplemental measure as it provides an indication of the funds generated by Pipestone Energy's principal business activities prior to consideration of changes in working capital.

Free cash flow

"Free cash flow" is a non-GAAP measure that is calculated as cash from operating activities plus changes in non-cash working capital and decommissioning provision costs incurred, less capital expenditures incurred, and is not defined under IFRS. Free cash flow should not be considered an alternative to, or more meaningful than, cash from operating activities, income (loss) or other measures determined in accordance with IFRS as an indicator of the Company's performance. Management uses free cash flow to analyze operating performance and leverage and believes it is a useful supplemental measure as it provides an indication of the funds generated by Pipestone Energy's principal business activities, inclusive of ongoing

capital expenditures, prior to consideration of changes in working capital.

Operating netback and Adjusted funds flow netback

Operating netback is calculated on either a total dollar or per-unit-of-production basis and is determined by deducting royalties, operating and transportation expenses from liquids and natural gas sales adjusted for realized gains/losses on commodity risk management contracts.

Adjusted funds flow netback reflects adjusted funds flow from operations 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 interest rate risk management contracts on a per-unit-of-production basis from the operating netback. Refer to "Financial and Operating Results" section above for further details.

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.

Net debt

Net debt is a non-GAAP measure that equals bank debt outstanding plus adjusted working capital. The Company does not consider its convertible preferred share obligation to be part of net debt as this represents a non-cash obligation that will ultimately be settled by conversion into Pipestone Energy common shares and reclassified from a liability to share capital on the Company's statement of financial position. Net debt is considered to be a useful measure in assisting management and investors to evaluate Pipestone Energy's financial strength.

Available funding and Adjusted working capital

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 risk management contracts 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 and depreciation, adjusted for certain non-cash and extraordinary items primarily relating to unrealized gains and losses on risk management contracts. 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.

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: estimated production and increased free cash flow generation; 2021 production guidance; timing for bringing 18 additional wells on production, including three wells from Pipestone Energy's 6-13 pad and six from its 15-25 pad; and connection date of Pipestone Energy's 6-30 pad to the Veresen Midstream battery and compressor station.

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; 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

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 May 12, 2021 and in Pipestone Energy's annual information form dated March 10, 2021, copies of which are available electronically on Pipestone Energy's SEDAR at 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.

Initial Production Rates and Short-Term Test Rates

This document may disclose test rates of production for certain wells over short periods of time (i.e. IP60, IP90), 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.

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.

CGR

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

Production

References to natural gas and condensate production in this press release refer to the shale gas and natural gas liquids (which includes condensate), respectively, product types as defined in National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities. References to liquids include tight oil and natural

gas liquids (including condensate, butane and propane).

Disclosure of production on a per boe basis in this press release consists of the constituent product types and their respective quantities as disclosed in the following table:

	Condensate (bbls/d)	Other NGLs (bbls/d)	Total NGLs (bbls/d)	Crude Oil ⁽¹⁾ (bbls/d)	Natural Gas ⁽²⁾ (Mcf/d)	Total (boe/d)
April 2021 (Field Estimate)	7,085	2,970	10,055	NMN ⁽³⁾	76,775	22,850

(1) References to crude oil in production amounts are to the product type "tight oil".

(2) References to natural gas in production amounts are to the product type "shale gas".

(3) NMN - not meaningful number.

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