

Freehold Royalties Ltd. enters into Agreements to Acquire U.S. Midland Basin and Eagle Ford Basin Assets for CAD\$155 million

07.07.2022 | [GlobeNewswire](#)

CALGARY, July 07, 2022 - [Freehold Royalties Ltd.](#) (Freehold or the Company) (TSX:FRU) has entered into definitive agreements with two private sellers to acquire high-quality U.S. mineral title and royalty assets located in the Midland basin predominantly in Howard County, Texas (the "Howard County Midland Assets") for \$123 million and in the Eagle Ford basin in Texas (the "Eagle Ford Assets") for \$32 million, both figures net of estimates for exchange rates and customary closing adjustments. Freehold also recently closed its previously announced \$19 million acquisition of mineral title and royalty assets in the Midland basin (the "Diversified Midland Assets") (collectively, the "U.S. Acquisitions"). All references in this news release to dollar amounts are in Canadian dollars unless otherwise indicated.

The U.S. Acquisitions enhance the quality of Freehold's North American royalty portfolio through further strengthening of our peer leading realized commodity pricing, building on the production growth platform we have established in the Permian basin, and continuing to position our portfolio in the highest quality oil and gas development areas across North America.

The execution of our business strategy is focused on continuously improving both the near-term and long-term sustainability of Freehold's dividend, maintaining balance sheet strength and flexibility, and retaining the ability to return capital to our shareholders through multiple years of free cash flow generation.

The U.S. Acquisitions are expected to add approximately 1,100 boe/d in production volumes and \$31 million in funds from operations in 2023 while growing our U.S. land holdings by approximately 147,000(1) gross acres and 8,000 net royalty acres ("NRA")(2) (90% mineral interests).

The U.S. Acquisitions will be funded through the utilization of Freehold's existing credit facility.

Freehold will provide an update on its 2022 guidance and payout levels as part of its Q2-2022 release after market close on August 9, 2022.

Howard County Midland Assets Highlights

- Concentrated mineral title and royalty land position in the core of the Midland basin in Texas, predominantly in Howard County, across 51,000 gross acres (approximately 4,400 NRA) with an average royalty rate of approximately 1.1%
- Q4-2022 forecasted average production of 550 boe/d and 2023 forecasted average production of 750 boe/d is expected to generate funds from operations in 2023 of approximately \$23 million
- Howard County Midland Assets are 95% liquids weighted (compared to Freehold's Q1-2022 average of 60%) providing meaningful uplift to Freehold's average realized commodity price. Q1-2022 netback of \$105/boe for Howard County Midland Assets compares to Freehold's Q1-2022 corporate netback of \$69/boe
- Material near-term growth driven by U.S. publicly listed HighPeak Energy and two private entities (Surge Energy and Bayswater Exploration and Production LLC). This growth is underpinned by 0.9 net line of sight inventory wells (drilled and uncompleted wells and permitted wells) which increases Freehold's net line of sight inventory wells by approximately 30%
- Strong well performance with average 365-day initial gross production rates of approximately 450 boe/d per well (based on average performance of wells drilled on the Howard County Midland Assets for the period 2019 –2021)
- Significant multi-year inventory with approximately 650 gross future drilling locations identified for development
- Increases Freehold's Midland basin exposure by approximately 40% on a NRA basis and more than

doubles production

- Acquisition has an effective date of June 1, 2022, and closing, which is subject to customary confirmatory due diligence and potential adjustments for any title defects, is expected to occur late August 2022

(1) Represents new gross acreage acquired

(2) NRA represents mineral ownership normalized to a 12.5% royalty; term commonly used by U.S. Mineral companies in describing royalty acreage

Eagle Ford Assets Highlights

- Concentrated mineral title and royalty land position in the core of the Eagle Ford basin in Texas across 41,000 gross acres (approximately 2,500 NRA) with an average royalty rate of approximately 0.8%

- Q4-2022 forecasted average production of 210 boe/d (78% liquids) and 2023 forecasted average production of 250 boe/d (76% liquids) is expected to generate funds from operations in 2023 of approximately \$5 million

- Diversified operator mix including exposure to EOG Resources, ConocoPhillips, BP, Devon Energy Corp. and private 1776 Energy Operators, LLC

- Significant multi-year inventory with approximately 700 gross future drilling locations identified for development

- Increases Freehold's Eagle Ford basin exposure by approximately 15% on a NRA basis and 10% on a production basis

- Strengthens Freehold's revenue base with Q1-2022 netback of \$78/boe compared to Freehold's Q1-2022 corporate netback of \$69/boe

- The effective date of this acquisition is April 1, 2022, and closing, which is subject to customary confirmatory due diligence and potential adjustments for any title defects, is expected to occur mid-September 2022

Diversified Midland Assets Highlights

- Mineral title and royalty land position in the core of the Midland basin in Texas across 220,000(3) gross acres (approximately 1,100 NRA) with an average royalty rate of approximately 0.1%

- 2023 forecasted average royalty production of approximately 130 boe/d (70% liquids) is expected to generate funds from operations in 2023 of approximately \$3 million

- Diversified operator mix including exposure to Pioneer Natural Resources Company, SM Energy Company and privates Surge Energy and Endeavor Energy Resources

- Acquisition has an effective date of April 1, 2022, and closed on June 28, 2022

Summary of U.S. Acquisitions	Howard County Midland Assets	Eagle Ford Assets	Diversified Midland Assets
Purchase Price (4) (millions)	\$123	\$32	\$19
Net Royalty Acres	4,400	2,500	1,100
2023E Average Production (boe/d)	750	250	130
2023E Funds from Operations (5) (millions)		\$23	\$5
			\$3

(3) 55,440 new gross acres added with this acquisition, existing interest in 164,560 gross acres acquired in 2021 acquisition

(4) Howard County Midland Assets and Eagle Ford Assets combined Purchase Price of \$155 million is subsequent to including estimated exchange rates and reductions for closing adjustments totaling \$10 million.

(5) Assumes a West Texas Intermediate price of US\$80/barrel of oil and a NYMEX natural gas price of US\$4.50/Mcf and an exchange rate of US\$0.80 for every CDN\$1.00.

Forward-Looking Statements

This news release offers our assessment of Freehold's future plans and operations as at July 7th, 2022 and contains forward-looking information including, without limitation, forward-looking information with regards to the expected terms and conditions of the U.S. Acquisitions; the expected timing for closing of the U.S. Acquisitions; the expected attributes and benefits to be derived by Freehold pursuant to the U.S. Acquisitions; the expectation that the U.S. Acquisitions will further enhance the quality of Freehold's North American royalty portfolio by strengthening of our realized commodity pricing, building on the production growth platform we have established in the Permian basin, and continuing to position our portfolio in the highest quality oil and gas development areas across North America; Freehold's intent to focus on continuously improving both the near-term and long-term sustainability of Freehold's dividend, maintaining balance sheet strength and flexibility, and retaining the ability to return capital to our shareholders through multiple years of free cash flow generation; the forecasted 2023 production and funds from operations from the assets to be acquired pursuant to the U.S. Acquisitions; the expectation that the consideration for the U.S. Acquisitions will be funded through Freehold's existing credit facilities; the forecast Q4 2022 average production, 2023 average production and 2023 funds from operations from the Howard County Midland Assets; the expectation that growth from the Howard County Midland Assets is underpinned by 0.9 net drilled and uncompleted wells and permitted wells); the future drilling locations associated with the Howard County Midland Assets; the forecast Q4 2022 average production, 2023 average production and 2023 funds from operations from the Eagle Ford Assets; the future drilling locations associated with the Eagle Ford Assets; the forecast 2023 average production and 2023 funds from operations from the Diversified Midland Assets; the future drilling locations associated with the Diversified Midland Assets; the expectation that the US Acquisitions provide immediate and future cash flow and production growth .

This forward-looking information is provided to allow readers to better understand our business and prospects and may not be suitable for other purposes. By its nature, forward-looking information is subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions including inflation and interest rates, the impact of supply chain and labour shortages, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, the impact of COVID-19 pandemic on economic activity and demand for oil and natural gas, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, our ability to access sufficient capital from internal and external sources. The closing of the U.S. Acquisitions could be delayed if Freehold or the other parties are not able to obtain the necessary regulatory and stock exchange approvals on the timelines anticipated. The U.S. Acquisitions may not be completed if these approvals are not obtained or some other condition to the closing of the U.S. Acquisitions is not satisfied. In addition, to the extent any title defects are discovered and unremedied it may result in Freehold not acquiring all of the assets expected to be acquired pursuant to the U.S. Acquisition. Accordingly, there is a risk that the U.S. Acquisitions will not be completed within the anticipated time or at all. Risks are described in more detail in Freehold's annual information form for the year ended December 31, 2021, which is available under Freehold's profile on SEDAR at www.sedar.com.

With respect to forward looking information contained in this press release including relating to the 2023 forecast production and 2023 forecast funds from operations from the assets to be acquired pursuant to the U.S. Acquisitions, we have made assumptions regarding, among other things; future oil and natural gas prices (for the purposes of the estimates in this press release we have assumed a 2023 West Texas Intermediate price of US\$80/barrel of oil and a 2023 NYMEX natural gas price of US\$4.50/Mcf); future exchange rates (for the purposes of the estimates in this press release we have assumed an exchange rate of US\$0.80 for every CDN\$1.00); that drilled uncompleted wells will be completed in the short term and brought on production; that wells that have been permitted will be drilled and completed within a customary timeframe; expectations as to additional wells to be permitted, drilled, completed and brought on production in 2022 and 2023 based on Freehold's review of the geology and economics of the plays associated with the assets to be acquired pursuant to the U.S. Acquisitions; expected production performance of wells to be drilled and/or brought on production in 2022 and 2023; the ability of our royalty payors to obtain equipment in a timely manner to carry out development activities; the ability and willingness of royalty payors to fund development activities relating to the assets to be acquired pursuant to the U.S. Acquisitions; and such other assumptions as are identified herein.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward looking information. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained herein is expressly qualified by this cautionary statement. To the extent any guidance or forward-looking statements herein constitute a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. Our policy for updating forward-looking statements is to update our key operating assumptions quarterly and, except as required by

law, we do not undertake to update any other forward-looking statements.

You are further cautioned that the preparation of financial statements in accordance with International Financial Reporting Standards requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

Drilling Locations

This press release discloses anticipated future drilling or development locations associated with the assets to be acquired pursuant to the U.S. Acquisitions, all of which are currently considered unbooked locations. Unbooked locations are generated by internal estimates of Freehold management based on prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of the multi-year drilling activities on the assets to be acquired pursuant to the U.S. Acquisitions based on evaluation of applicable geologic, seismic, engineering, historic drilling, production, commodity price assumptions and reserves information. There is no certainty that all unbooked drilling locations will be drilled and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources, or production. Freehold has no control on whether any wells will be drilled in respect of such unbooked locations. The drilling locations on which wells are drilled will ultimately depend upon the capital allocation decisions of royalty payors who have working interests in respect of such drilling locations and a number of other factors including, without limitation, availability of capital, regulatory approvals, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production. Upon purchase of the assets to be acquired pursuant to the U.S. Acquisitions, Freehold will have the reserves associated with the assets to be acquired pursuant to the U.S. Acquisitions evaluated by an independent qualified reserves evaluator in accordance with the requirements of National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities and it will be determined at such time whether any of the unbooked drilling locations disclosed herein are booked for the purposes of such evaluation with associated proved or probable reserves.

Production

All production disclosed herein is considered net production for the purposes of National Instrument 51-101-Standards of Disclosure for Oil and Gas Activities, which includes Freehold's working interest (operating and non-operating) share after deduction of royalty obligations, plus our royalty interests. Since Freehold has minimal working interest production, net production is substantially equivalent to Freehold's royalty interest production. In 2023 net production from the assets to be acquired pursuant to the U.S. Acquisitions is expected to consist of approximately 79% of light oil, 10% of natural gas liquids and 11% of natural gas. In Q4-2022 net production from the Howard Country Midland Assets is expected to consist of approximately 88% of light oil, 7% of natural gas liquids and 5% natural gas. In 2023 net production from the Eagle Ford Assets is expected to consist of approximately 55% light oil, 23% natural gas liquids and 22% natural gas. In Q4-2022 net production from the Eagle Ford Assets is expected to consist of approximately 55% light oil, 23% natural gas liquids and 22% natural gas. In 2023 net production from the Diversified Midland Assets is expected to consist of approximately 65% of light oil, 5% of natural gas liquids and 30% of natural gas.

Currency

All references in this news release to dollar amounts are to Canadian dollars unless otherwise indicated.

Initial Production Rates

References in this press release to initial production rates, other short-term production rates or initial performance measures relating to new wells are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. In addition, the

initial 365 average production rates associated with the Howard County Midland Assets have been based on disclosure made by operators in the area and Freehold cannot confirm whether such rates represent the average of all wells drilled or are representative of only a selection of such wells. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate future production from the Howard County Midland Assets.

Conversion of Natural Gas to Barrels of Oil Equivalent (BOE)

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/422621--Freehold-Royalties-Ltd.-enters-into-Agreements-to-Acquire-U.S.-Midland-Basin-and-Eagle-Ford-Basin-Assets-for-C>

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