

# PrairieSky Royalty Announces Agreement to Acquire Western Canadian Royalty Assets from Heritage Royalty for \$728 Million and Concurrent Financing Transactions

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[PrairieSky Royalty Ltd.](#) ("PrairieSky" or the "Company") (TSX: PSK) is pleased to announce that it has entered into a definitive agreement with Heritage Royalty ("Heritage") to acquire: (i) over 1.9 million acres of royalty lands throughout Alberta, Saskatchewan and Manitoba (the "Royalty Lands") including over 1.7 million net acres of fee simple mineral title lands; and (ii) extensive seismic assets that are complementary to the Royalty Lands, for total cash consideration of \$728 million (the "Acquisition"). The Acquisition includes current estimated royalty production of 2,700 BOE per day (92% liquids), from which PrairieSky expects to generate approximately \$65 million of royalty revenue in 2022, excluding any leasing, compliance and other revenues associated with the Royalty Lands. The Acquisition will reunify a preeminent fee simple mineral title asset across Alberta, Saskatchewan and western Manitoba with PrairieSky's existing royalty portfolio of approximately 16.3 million acres. The Acquisition will be funded through a new \$500 million term loan provided by TD Securities Inc., and a concurrent \$200 million bought deal equity financing led by TD Securities Inc. and RBC Capital Markets as joint bookrunners and co-led by CIBC Capital Markets and BMO Capital Markets on behalf of a syndicate of underwriters.

"With this Acquisition, PrairieSky consolidates a complementary and historic asset base, one of the largest blocks of fee mineral title acreage in Canada, with our incomparable existing royalty portfolio," said Andrew Phillips, President and CEO of PrairieSky, commenting on the Acquisition. "The Acquisition is highly accretive on a per-share basis and is consistent with our strategy of adding complementary royalty assets that provide near term cash flow accretion per-share along with near, medium and long-term value enhancement potential. These other benefits include extensive leasing opportunities, near term implementation of multi-lateral drilling and other technological advancements, early stage and future enhanced oil recovery projects, and future exploitation of other minerals such as potash, helium and lithium, in each case at no additional cost to PrairieSky. Including the proposed Acquisition, PrairieSky has successfully added approximately 3.0 million acres of incremental royalty lands, predominantly fee mineral title, to our business in 2021."

## BENEFITS OF THE ACQUISITION

PrairieSky believes the key benefits of the Acquisition are as follows:

- Increases PrairieSky's already dominant oil and natural gas royalty acreage position by adding over 1.9 million acres of royalty interest lands, including 1.7 million net acres of fee simple mineral title lands, providing a vast undeveloped land position for future leasing and royalty generating opportunities and the perpetual optionality that exists only with fee simple mineral title.
- Adds 2,700 BOE per day of current royalty production volumes which are expected to generate approximately \$65 million of royalty production revenue in 2022. The Acquisition adds 2,400 barrels of oil per day, increasing PrairieSky's oil royalty production by over 30%. PrairieSky expects its total liquids royalty production weighting to be over 55% in 2022.
- Immediately accretive to funds from operations per share and expected to be approximately 17% accretive to funds from operations per share in 2022.
- Adds approximately 20% to oil royalty production per share.

- Adds multi-decade inventory with numerous original oil-in-place development opportunities with proven growth potential, down spacing, secondary recovery and enhanced oil recovery ("EOR") upside potential.
- Adds acreage in multiple areas that are expected to see implementation of multi-lateral drilling and other sustainable technologies pioneered in the Clearwater oil play.
- Adds \$728 million of tax pools which are expected to reduce PrairieSky's 2021 cash taxes by over \$20 million as well as reducing PrairieSky's future taxability.
- Further diversifies the geographical and geological nature of PrairieSky's royalty revenues, with high quality, well capitalized and capital efficient royalty payors, including [Canadian Natural Resources Ltd.](#), [Crescent Point Energy Corp.](#) and Enerplus Corporation who are three of the top royalty payors.
- Achieves significant general and administrative cost synergies through economies of scale.

The Acquisition is expected to close in December 2021, with an effective date of December 31, 2021. The Acquisition is subject to applicable regulatory approvals and satisfaction of certain other closing conditions customary in transactions of this nature, including approval under the *Competition Act* (Canada). A copy of the purchase and sale agreement will be filed on PrairieSky's SEDAR profile and will be available for viewing at [www.sedar.com](http://www.sedar.com).

## BOUGHT DEAL FINANCING

PrairieSky has entered into an approximate \$200 million bought deal equity financing (the "Financing") whereby a syndicate of underwriters led by TD Securities Inc. and RBC Capital Markets as joint bookrunners and co-led by CIBC Capital Markets and BMO Capital Markets (collectively, the "Underwriters") have agreed to purchase 14,930,000 million common shares of the Company ("Common Shares") at a price of \$13.40 per Common Share (the "Issue Price"). The Company has granted the Underwriters an option, exercisable at any time until 30 days following the closing of the Financing, to purchase up to an additional 15% of the Common Shares issued pursuant to the Financing to cover over-allotments, if any. If the over-allotment option is exercised in full, the Company will receive aggregate gross proceeds of approximately \$230 million.

The Common Shares issued pursuant to the Financing will be eligible to receive the quarterly dividend expected to be declared on or about December 8, 2021 and payable to shareholders of record on December 31, 2021. The dividend is expected to be paid on January 17, 2022. PrairieSky will use the net proceeds of the Financing to fund a portion of the purchase price for the Acquisition. The Financing is subject to certain conditions including customary regulatory and Toronto Stock Exchange ("TSX") approvals. Closing of the Financing is not conditional on closing of the Acquisition. The Common Shares will be offered in all provinces and territories of Canada by way of a short form prospectus and in the United States pursuant to the exemptions from the registration statement requirements under the United States Securities Act of 1933. The closing of the Financing is expected to occur on or about December 15, 2021. Closing of the Acquisition is not subject to closing of the Financing as PrairieSky has financial capacity under its existing credit facility and the Term Loan (described below) to complete the Acquisition.

*This press release does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.*

## TERM LOAN

In connection with the Acquisition, PrairieSky has entered into a binding agreement with TD Securities Inc. to provide PrairieSky with a new two-year, \$500 million term loan (the "Term Loan"). The Term Loan will include financial and other covenants and pricing identical to PrairieSky's existing \$425 million revolving credit facility which matures on February 28, 2025. Funding under the Term Loan will take place concurrently with closing of the Acquisition. To the extent the available credit under the Credit Facility is expanded prior to closing of the Acquisition, the amount of credit available under the Term Loan will be reduced in an equivalent amount or in its entirety.

## FORWARD LOOKING STATEMENTS & INFORMATION

This press release includes certain statements regarding PrairieSky's future plans and operations and contains forward-looking statements that we believe allow readers to better understand our business and prospects. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. Forward-looking statements contained in this press release include our expectations with respect to the benefits of the Acquisition, 2022 royalty revenue and production from the Royalty Lands, accretion levels, potential development of and production from the acquired Royalty Lands and the timing thereof, the effect of the Acquisition on PrairieSky's oil and liquids weighting, the use of the tax pools from the Acquisition by PrairieSky, future technological advancements and their effect on royalty production volumes, potential growth, down spacing, secondary recovery and EOR upside potential associated with the Royalty Lands, potential other minerals that may be exploited on the Royalty Lands, PrairieSky's business and growth strategy and potential business development and acquisition opportunities, administrative synergies of the Acquisition including future general and administrative costs, declaration and payment of a dividend to PrairieSky shareholders for the December 31, 2021 record date, the receipt of all required regulatory approvals for the Acquisition on or prior to the closing of the Acquisition, the closing and timing of closing of the Acquisition and the Financing, the use of proceeds of the Financing, potential expansion of available credit under the Credit Facility and the size, closing and timing of the Term Loan.

The information in this press release could differ materially from those anticipated in the forward-looking statements as a result of the risk factors set forth below: failure to complete the Acquisition in all material respects in accordance with the agreement with Heritage or at all; the inability to obtain regulatory, TSX, and other required approvals in connection with the Acquisition and the Financing, as applicable, and within the timeframes contemplated; failure to realize the anticipated benefits of the Acquisition; the Royalty Lands will not be developed in the manner anticipated by PrairieSky or at all; non-compliance with contractual royalty terms or payment or delivery delinquencies in respect of the acquired Royalty Lands and associated production, including the credit risk associated therewith; volatility in the demand, supply and market prices for petroleum products; volatility in exchange rates; , the impacts of COVID-19 and existing and future variants thereof, including such impacts with respect to global commodity prices; liabilities inherent in petroleum and natural gas operations; uncertainties associated with estimating crude oil, natural gas and NGL reserves and future production levels; increased costs incurred by third-party operators on the acquired Royalty Lands; incorrect assessments of the value of the assets by PrairieSky; risks related to the environment and changing environmental laws in relation to the operations conducted on the assets, including carbon pricing; technological advances; claims made or legal actions brought or realized against PrairieSky, its properties or assets (including the acquired assets); a failure by PrairieSky to hire or retain key personnel; a decrease or elimination of the payment of dividends by PrairieSky as a result of a board determination or restrictions under applicable agreements or corporate laws; general economic, market and business conditions; and changes in tax or environmental laws or royalty or incentive programs relating to the oil and natural gas industry. Risks related to PrairieSky's business and the assets generally are described in more detail in PrairieSky's annual information form for the year ended December 31, 2020, which is available under PrairieSky's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

With respect to forward-looking statements contained in this press release, the following assumptions have been made including: that the Acquisition, Financing and Term Loan will close on the terms and on the timing expected; potential expansion of available credit under the Credit Facility and reduction in the size of the Term Loan, that the required regulatory approvals and satisfaction of all conditions to closing of the Acquisition, and the Financing will be obtained and on the timeframes contemplated; that the Acquisition will be successfully completed and PrairieSky will obtain the anticipated benefits of the Acquisition; that lessees and third-party operators will comply with, and PrairieSky will enforce terms and contractual provisions, as applicable in order to receive payments in respect of the assets; that third-party operators will operate in a safe, efficient and effective manner; that lessees have the willingness and financial capability to continue to develop and invest additional capital in the acquired Royalty Lands; that lessees are able to obtain financing on acceptable terms to fund exploration and development capital expenditures; as to the field production rates, decline rates and the well performance and characteristics of the acquired assets; the timing, cost and ability of third parties, to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of third-party operators to successfully market their respective petroleum products or, for royalty payments taken-in-kind by PrairieSky, if any, the ability of PrairieSky or a third-party marketer to successfully market PrairieSky's in-kind petroleum products; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against PrairieSky or the assets; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in oil and natural gas properties; and future crude oil, natural gas and natural gas liquids prices and currency, exchange and interest rates.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which

are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to acquisitions. These risks and uncertainties include risks relating to the potential for disputes to arise with counterparties, and limited ability to recover indemnification under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's management's discussion and analysis, and PrairieSky's annual information form for the year ended December 31, 2020 under the headings "Risk Management" and "Risk Factors", respectively, each of which is available at [www.sedar.com](http://www.sedar.com).

Further, any forward-looking statement is made only as of the date of this press release, and PrairieSky undertakes no obligation to update or revise any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for PrairieSky to predict all of these factors or to assess in advance the impact of each such factor on PrairieSky's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Certain statements included in this press release may be considered "financial outlook" or "FOFI" for purposes of applicable securities laws, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. The actual results of operations of the Company and the resulting financial results will likely vary from the amounts set forth in this press release and such variation may be material. The Company and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgements. However, because this information is subjective and subject to numerous risks, it should not be relied on as necessarily indicative of future results. FOFI contained in this press release was made as of the date of this press release and was provided for the purpose of providing further information about the Company's anticipated future business operations. Readers are cautioned that the FOFI contained in this press release should not be used for purposes other than for which it is disclosed herein.

The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

#### CONVERSIONS OF NATURAL GAS TO 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). PrairieSky uses 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.

#### ABOUT PRAIRIESKY ROYALTY LTD.

PrairieSky is a royalty-focused company, generating royalty revenues as petroleum and natural gas are produced from its properties. PrairieSky has a diverse portfolio of properties that have a long history of generating funds from operations and that represent the largest and most concentrated independently-owned fee simple mineral title position in Canada. PrairieSky's common shares trade on the Toronto Stock Exchange under the symbol PSK.

FOR FURTHER INFORMATION PLEASE CONTACT:

Andrew Phillips  
President & Chief Executive Officer  
[PrairieSky Royalty Ltd.](#)  
(587) 293-4005

Pamela Kazeil  
Vice President, Finance & Chief Financial Officer  
[PrairieSky Royalty Ltd.](#)  
(587) 293-4089

Investor Relations  
(587) 293-4000  
[www.prairiesky.com](http://www.prairiesky.com)

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