Granite Oil Corp. Announces 2019 Year End Reserve Metrics

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CALGARY, Jan. 20, 2020 - Granite Oil Corp. (“Granite” or the “Company”) (TSX:GXO)(OTCQX:GXOCF) is pleased to present the summary results of the independent reserves report (the “Sproule Report”) prepared by Sproule Associates Limited (“Sproule”) with an effective date of December 31, 2019.

In 2019, Granite invested approximately $6.4 million of capital expenditures (unaudited) into its 100%-owned Bakken oil property, representing approximately 45% of its Corporate funds from operations (unaudited), and replaced its Proved Developed Producing (‘PDP’) oil reserves. During the year, Granite drilled and completed one 100% working-interest horizontal development well, and conducted one recompletion in which additional frac stages were added to an existing producing well. Associated PDP finding and development costs for oil were approximately $11.55 per barrel, generating a recycle ratio of 3.0 times. Additionally, a significant portion of the Company’s capital expenditures for the year were invested in projects intended to reduce future operating costs and further enhance the Company’s early-life-cycle gas injection EOR scheme. Over the last three years, Granite has had an average PDP recycle ratio of 2.8, and has dropped its year-over year-capital spending by 66%, demonstrating the efficiency of its long-term Bakken development plan in converting barrels in the ground to developed producing reserves.

Granite increased its Total Proved (‘TP’) oil reserves to 13.5 mmbbls, representing an increase of 1.3 mmbbls when compared to 2018. Total Proved finding and development costs for oil, including the change in future development capital (‘FDC’) of $14.22 million, were $10.88 per barrel, generating a recycle ratio of 3.2 times. A significant contributor to this were positive technical revisions made to undeveloped Bakken locations which reflects the performance of the Company’s four most recent development wells. In keeping with Granite’s focus on increasing well performance and overall recovery, these wells were completed with higher frac sand densities than historically utilized by the Company and have outperformed type-curves. No additional undeveloped drilling locations were booked in the 2019 Sproule Report, thus maintaining a significant inventory of potential infill drilling locations in excess of current bookings. Additionally, following up on Granite’s successful recompletion test, 15 future recompletion candidates were included in the 2019 Sproule Report. Granite had five wells shut-in throughout majority of 2019 in an area being actively re-pressurized by the EOR scheme which are scheduled for a recompletion program in 2020.

Granite increased its Total Proved plus Probable (‘TPP’) oil reserves to 17.5 mmbbls, representing an increase of 1.4 mmbbls from the previous year. Total Proved plus Probable finding and development costs for oil, including the change in FDC of $15.15 million, were $10.97 per barrel, generating a recycle ratio of 3.1 times.

Granite’s properties produced an average of approximately 1,539 bbls of oil per day during 2019. Granite’s average realized all-in operating netback (prior to hedging) for the period is estimated to be $34.21 per barrel of oil equivalent (‘BOE’). All finding and development costs and recycle ratios set out in this news release have been calculated for Company Gross Reserves for oil and NGL volumes using an adjusted operating netback for oil (prior to hedging) for the period estimated to be $34.38 per barrel of oil.

2019 Year End Reserves

The evaluation of Granite’s petroleum and natural gas reserves was prepared by independent reserves evaluator, Sproule, in accordance with definitions, standards and procedures contained in National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (“NI 51-101”) and the Canadian Oil and Gas Evaluation Handbook (“COGE Handbook”). The reserves evaluation is based on forecast prices and costs, and applies Sproule’s forecast escalated commodity price deck, foreign exchange rate, and inflation rate assumptions as at December 31, 2019, as outlined in the table below entitled “*Pricing Assumptions*”. Financial information presented above is based on management-prepared estimates for the year ended December 31, 2019, which have yet to be audited by Granite’s independent auditors and, accordingly, such financial information is subject to change based on the results of the audit. See “Reader Advisory – Unaudited Financial Information” below.

Summary of Reserves

The following table is a summary of the Company’s estimated reserves as of December 31, 2019, based on the Sproule Report.

Summary of Company Gross Oil and Gas Reserves as at December 31, 2019 (1)(2)(3)(4)(5)(6)(7)

Reserves Category	Oil and NGLs (Mbbl)	Gas (MMcf)	Oil Equivalent (MBOE)	BTAX PV 10% ($000's)	Future Development Capital ($000's)	Oil Recycle Ratio	Net Undeveloped Wells Booked
Proved Developed Producing	7,008	113	7,027	139,902	200	3.0	
Proved Developed Non-Producing	418	10,185	2,115	8,268	400		
Proved Undeveloped	6,226	-	6,226	97,649	76,617		38
Total Proved	13,651	10,298	15,368	245,819	77,217	3.2	38
Probable Developed Producing	2,234	39	2,240	28,393	-		
Probable Developed Non-Producing	147	4,427	885	1,993	-		
Probable Undeveloped	1,737	-	1,737	28,860	6,722		4
Total Probable	4,118	4,466	4,862	59,246	6,722		4
Total Proved + Probable	17,769	14,764	20,230	305,065	83,939	3.1	42

Notes:

1. The tables summarize data set out in the Sproule Report and may not add due to rounding.
2. Reserves have been presented on a gross basis which are the Company’s total working interest share without including any royalty interests of the Company.
3. Based on Sproule’s December 31, 2019 escalated price forecast. See “Pricing Assumptions” below.
4. The net present value of future net revenues attributable to the Company’s reserves are stated prior to provision for interest, general and administrative expenses and after deduction of royalties, operating costs, estimated well abandonment and reclamation costs and estimated future capital expenditures. Future net revenues have been presented on a before tax basis. It should not be assumed that the present worth of estimated future net revenue presented in the tables above represents the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserves estimates of Granite’s crude oil and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.
5. The Company’s Bakken and Sunburst reserves are developed with horizontal wells and completed with multi-stage fracturing in the case of the Bakken.
6. “Oil” volumes include all Light, Medium, and Heavy crude oil volumes.
7. The recycle ratios presented are applicable to oil and NGL volumes using an adjusted 2019 operating netback for oil and NGLs of $34.38 per barrel.

Net Present Values (“NPV”) of Future Net Revenue

The following table is a summary of the estimated net present values of future net revenue (before income taxes) associated with the Company’s reserves as at December 31, 2019, based on the Sproule Report. The calculated NPVs include a deduction for estimated future well abandonment and reclamation but do not include a provision for interest, debt service charges and general and administrative expenses. It should not be assumed that the NPV estimates represent the fair market value of the reserves.

Summary of NPV of Future Net Revenue as at December 31, 2019 (1)(2)(3)

Reserves Category	Net Present Value Before Income Taxes Discounted at (%/Year) 0% $M	5% $M	10% $M	15% $M	20% $M
Proved					
Proved Developed Producing	260,258	188,732	139,902	110,598	91,793
Proved Developed Non-Producing	65,762	15,530	8,268	6,257	5,209
Proved Undeveloped	250,759	148,974	97,649	68,352	50,001
Total Proved	576,779	353,236	245,819	185,207	147,004
Total Probable	286,339	108,016	59,246	39,311	28,805
Total Proved + Probable	863,118	461,252	305,065	224,518	175,809

Notes:

1. The tables summarize data set out in the Sproule Report and may not add due to rounding.
2. Based on Sproule’s December 31, 2019 escalated price forecast. See “Pricing Assumptions” below.
3. The net present value of future net revenues attributable to the Company’s reserves are stated prior to provision for interest, general and administrative expenses and after deduction of royalties, operating costs, estimated well abandonment and reclamation costs and estimated future capital expenditures. Future net revenues have been presented on a before tax basis. It should not be assumed that the present worth of estimated future net revenue presented in the tables above represents the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserves estimates of Granite’s crude oil and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Reconciliation of Changes in Reserves and Future Net Revenue

The following table sets forth a reconciliation of Sproule’s estimate of the changes in gross total Company working-interest reserve volumes as at December 31, 2019 against such gross reserves as at December 31, 2018 based on forecast prices and cost assumptions in effect at the time of the respective evaluations.

Reconciliation of Corporate Gross Reserves (1)(2)(3)(4)(5)(6)

	Oil and NGL		Conventional Natural Gas		Total
	Gross Proved (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (MBOE)
Opening Balance 31-Dec-18	12,314.1	16,363.4	12,073.0	16,987.1	14,326.3
Product Type Transfer	0.0	0.0	0.0	0.0	0.0
Extensions	0.0	0.0	0.0	0.0	0.0
Infill Drilling	0.0	0.0	0.0	0.0	0.0
Improved Recovery	0.0	0.0	0.0	0.0	0.0
Technical Revisions	1,906.4	1,976.9	(1,673.9)	(2,105.0)	1,627.4
Discoveries	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0
Economic Factors	(7.6)	(9.5)	(85.8)	(103.0)	(21.9)
Production	(561.6)	(561.6)	(15.0)	(15.0)	(564.1)
Closing Balance 31-Dec-19	13,651.3	17,769.1	10,298.3	14,764.1	15,367.7
Total Adds	1,337.2	1,405.8	(1,774.7)	(2,223.0)	1,041.4

Capital Summary (M$)	Proved	Proved+ Probable
Future Development Capital	77,217.38	83,938.93
Change in FDC v. 2018 Sproule Report	14,224.88	15,151.93

Notes:

1. The tables summarize data set out in the Sproule Report and may not add due to rounding.
2. “Technical Revisions” are a result of changes in performance of new and existing wells and economic parameters.
3. Changes related to “Economic Factors” are a result of the differences in Sproule’s Forecast Prices used in the 2019 Sproule Report and Sproule’s Forecast Prices used in the 2018 Sproule Report.
4. “Production” represents the Corporation’s actual production for the year ended December 31, 2019.
5. “Oil” volumes include all Light, Medium, and Heavy Crude Oil volumes.
6. “Conventional Natural Gas” volumes include solution gas, associated and non-associated gas.

Future Development Capital (“FDC”)

The following table provides a summary of the estimated FDC required to bring the Company’s undeveloped reserves to production, which have been deducted in the estimation of future net revenue attributable to such reserves. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities, and capital cost estimates that reflect the independent evaluator's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production using forecast prices and costs.

Future Development Costs of Undeveloped Reserves (1)

Future Development Capital	($M)	($M)
Year	Total Proved	Total Proved + Probable
2020	7,350	7,350
2021	15,163	15,163
2022	21,883	21,883
2023	20,079	20,702
2024 and remaining	12,742	18,841
Total Undiscounted FDC	77,217	83,939
Total Discounted FDC at 10%/Year	60,062	64,482

Note:

1. Numbers may not add due to rounding.

Pricing Assumptions

The following table summarizes Sproule’s commodity price forecast and foreign exchange rate and inflation rate assumptions as at December 31, 2019, as applied in the Sproule Report. Forecast pricing for the year 2020 decreased by 4% for oil and decreased by 16% for gas when comparing Sproule’s pricing assumptions included in the December 31, 2019 Sproule Report versus Sproule’s December 31, 2018 reserves report. The longer-term price forecast decreased on average by 9% over the following 10 years for oil, and decreased on average by 12% for the following 10 years for gas when comparing Sproule’s pricing assumptions in the December 31, 2019 report versus the December 31, 2018 report.

Forecast Pricing and Foreign Exchange Rates (1)(2)(3)(4)(5)

	Western Canada Select 20.5° API ($Cdn/bbl)(4)	Alberta AECO-C Spot ($Cdn/Mmbtu)(5)	Exchange Rate (2) ($US/$Cdn)	Edmonton Propane ($Cdn/bbl)	Edmonton Butane ($Cdn/bbl)	Edmonton Pentanes Plus ($Cdn/bbl)
Forecast(3)						
2020	59.81	2.04	0.76	25.07	37.72	76.32
2021	63.98	2.27	0.77	31.84	43.90	80.52
2022	63.77	2.81	0.80	32.43	47.74	80.00
2023	65.04	2.89	0.80	33.26	48.69	81.68
2024	66.34	2.98	0.80	34.12	49.67	83.38
2025	67.67	3.06	0.80	34.99	50.66	85.13
Thereafter Escalation Rate of 2.0%						

Notes:

1. This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer.
2. The exchange rate used to generate the benchmark reference prices in this table.
3. As at December 31, 2019.
4. The price received for the Company’s oil, which is considered to be Medium crude oil, has historically corresponded closely to Western Canada Select 20.5° API ($Cdn/Bbl), plus associated quality adjustments.
5. The price received for the Company’s natural gas has historically corresponded to AECO-C Spot pricing ($Cdn/MMBtu), adjusted for heat value and transportation.

Contacts
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READER ADVISORIES

Forward-Looking Statements

This news release contains forward‐looking statements and forward‐looking information (collectively “forward‐looking information”) within the meaning of applicable securities laws relating to Granite’s plans, strategy, objectives and other aspects of Granite’s anticipated future operations and financial, operating and drilling plans and results. In addition, without limited the generality of the foregoing, this news release contains forward-looking information pertaining to the following: projections of market prices and costs, supply and demand for oil and natural gas, the quantity of reserves, oil and natural gas production levels, the success of the enhanced oil recovery scheme, capital expenditure programs, treatment under governmental regulatory and taxation regimes, expectations regarding Granite’s ability to raise capital and to continually add to reserves through acquisitions and development, projections of market prices and costs and plans, timing of filing of Granite’s annual information form and annual financial statements for the year ended December 31, 2019, and other matters ancillary or incidental to the foregoing.

All statements, other than statements of historical fact, may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. The forward‐looking information is based on certain key expectations and assumptions made by Granite’s management, including: expectations concerning prevailing commodity prices, exchange rates, interest rates, applicable royalty rates and tax laws; capital efficiencies; legislative and regulatory environments of the jurisdictions where Granite carries on business or has operations; future production rates and estimates of operating costs; performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the timing, location and extent of future drilling operations; the state of the economy and the exploration and production business; results of operations; performance; business prospects and opportunities; the availability and cost of financing, labour and services; the impact of increasing competition; ability to market oil and natural gas successfully and Granite’s ability to access capital on satisfactory terms.

Statements relating to “reserves” are also deemed to be forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Although Granite believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because no assurance can be given that they will prove to be correct. Since forward‐looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties, including, but not limited to, volatility in the market prices for oil and natural gas; uncertainties associated with estimating reserves; uncertainties associated with Granite’s ability to obtain additional financing on satisfactory terms; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; incorrect assessments of the value of acquisitions; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel. Management has included the above summary of assumptions and risks related to forward-looking information provided in this news release in order to provide security holders with a more complete perspective on Granite’s future operations and such information may not be appropriate for other purposes. Granite’s actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward‐looking information will transpire or occur, or if any of them do so, what benefits that Granite will derive there from.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect Granite’s operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

The forward-looking information contained in this new release represents Granite’s views as of the date of this document and such information should not be relied upon as representing its views as of any date subsequent to the date of this document. Granite has attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. Except as required by applicable securities laws, Granite undertakes no obligation to publicly update or revise any forward-looking information.

Unaudited Financial Information and Non-GAAP Measures

Certain financial and operating information included in this news release are based on estimated unaudited financial results for the year ended December 31, 2019 and are subject to the same limitations as discussed under “Forward- Looking Statements” set out above. These estimated amounts are subject to change upon the completion of the audited financial statements for the year ended December 31, 2019 and changes could be material.

Non-GAAP Measurements. This news release contains the terms "funds from operations", which should not be considered an alternative to or more meaningful than cash flow ‎from (used in) operating activities as determined in accordance with IFRS. This term do not have any ‎standardized meaning under IFRS. Granite's determination of funds from operations may not be comparable to that reported by other companies. Management uses funds ‎from operations to analyze operating performance and leverage, and considers funds from operations to be a ‎key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital ‎investments and to repay debt, if applicable. Funds from operations is calculated using cash flow from ‎operating activities as presented in the statement of cash flows, before changes in noncash working capital. ‎

This document contains the term “operating netback” which is defined in the Company’s Management’s Discussion and Analysis (the “MD&A”) for the nine months ended September 30, 2019. Management uses these financial measures to analyze operating performance and leverage. These measures do not have any standardized meaning prescribed by International Financial Reporting Standards (“IFRS”) and therefore may not be comparable with the calculation of similar measures for other companies. Granite feels these benchmarks are key measures of overall sustainability.

Information Regarding Disclosure on Oil and Gas Reserves

The reserves data set forth above is based upon an independent reserves assessment and evaluation prepared by Sproule with an effective date of December 31, 2019 (the “Sproule Report”). The information contained in this news release summarizes the Company’s crude oil, natural gas liquids and natural gas reserves and the net present values before income tax of future net revenue for the Company’s reserves using forecast prices and costs based on the Sproule Report.

All reserve references in this news release are “Company share reserves”. “Company share reserves” are the Company’s total working interest reserves before the deduction of any royalties and including any royalty interests of the Company.

The Sproule Report has been prepared in accordance with the standards contained in the COGE handbook and the reserve definitions contained in NI 51-101. All evaluations and reviews of future net cash flows are stated prior to any provisions for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimates of future net revenues presented in the tables above represent the fair market value of the reserves. There is no assurance that the forecast prices and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of the Company’s crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein. All future net revenues are estimated using forecast prices, arising from the anticipated development and production of the Company’s reserves, net of the associated royalties, operating costs, development costs, and abandonment and reclamation costs and are stated prior to provision for interest and general and administrative expenses. Future net revenues have been presented on a before tax basis. Estimated values of future net revenue disclosed herein do not represent fair market value.

International Petroleum Corp.

On January 20, 2020, Granite announced that it has entered into an arrangement agreement (the “Agreement”) with International Petroleum ‎Corporation (TSX, Nasdaq Stockholm: IPCO) (“IPC”), pursuant to which IPC will acquire all of the issue ‎and outstanding common shares of Granite (the “Shares”) for cash consideration of $0.95 per Share ‎‎(the “Transaction”). ‎

Reserves estimates and contingent resource estimates in respect of Granite’s oil and gas assets were evaluated by ‎Sproule on behalf of IPC in reports prepared by Sproule dated January 15, 2020 evaluating the oil and gas reserves and ‎contingent resources attributable to Granite’s properties as at December 31, 2019. The reserves estimates and ‎contingent resource estimates included in these Sproule reports are based on IPC’s assessment of potential ‎development activities related to Granite’s properties which may differ from Granite’s assessment and reported figures.‎

Oil and Gas Metrics

This news release contains metrics commonly used in the oil and natural gas industry, such as “recycle ratio”, “operating netback”, “finding and development (“F&D”) costs”, and “development capital”. These terms do not have a standardized meaning and may not be comparable to similar measures presented by other companies, and therefore should not be used to make such comparisons. Management uses oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Granite’s operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this news release, should not be relied upon for investment or other purposes.

“Finding and development costs” are calculated as the sum of development capital plus the change in FDC for the period divided by the change in reserves that are characterized as development for the period. Finding and development costs take into account reserves revisions during the year on a per barrel of oil basis. The aggregate of the exploration and development costs incurred in the financial year and changes during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.

“Development capital” means the aggregate exploration and development costs incurred in the financial year on reserves that are categorized as development. Development capital presented herein excludes land, acquisition and capitalized administration costs.

“Recycle ratio” is measured by dividing the operating netback by F&D cost per barrel of oil for the year.

“Operating netback” is calculated using production revenues minus royalties and production expenses calculated on a per barrel of oil basis.

BOE Presentation

References herein to “boe” mean barrels of oil equivalent derived by converting gas to oil in the industry-accepted standard conversion ratio of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6: 1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.