Forza Petroleum 2020 Financial and Operational Results

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Significant decrease in liabilities and reduced general and administration costs position Forza Petroleum to leverage increasing oil prices to strengthen financial position and fund an ambitious 2021 work program to increase production

Calgary, March 18, 2021 - Forza Petroleum Ltd. ("Forza Petroleum" or the "Corporation") today announces its financial and operational results for the year ended December 31, 2020. All dollar amounts set forth in this news release are in United States dollars.

2020 Financial Highlights:

- Total revenues of $82.0 million on working interest sales of 2,512,100 barrels of oil ("bbl") and an average realised sales price of $28.23/bbl for 2020
    - 46% annual decrease in revenues versus 2019 primarily the result of a 42% decrease in average realised sales price
    - Except for the $22 million remaining outstanding balance for oil sales during the months of November and December 2019 and January and February 2020, the Corporation has received full payment in accordance with production sharing contract entitlements for all oil sale deliveries into the Kurdistan Oil Export Pipeline through January 2021
    - Monthly payments are now being made by the Kurdistan Region of Iraq Ministry of Natural Resources against the $22 million in past due receivables. The monthly additional payment is equal to gross sales barrels from the Hawler license area for the applicable month multiplied by 50% of the amount by which the average dated Brent price for the month exceeds $50/bbl
- Operating expenses of $24.8 million ($9.87/bbl) for the year as a whole, reducing to $8.97/bbl for Q4 2020
    - Annual operating expenses per barrel down 5% versus 2019
    - Operating expenses per barrel in Q4 2020 down 8% versus Q4 2019
- Significant reduction in head office headcount from mid-2020 contributed to general and administration cost savings of $2.0 million in the second half of 2020 compared to the same period in 2019
- Loss of $108.7 million ($0.19 per common share) in 2020 versus Loss of $59.2 million in 2019 ($0.11 per common share)
    - Losses in 2020 and 2019 primarily attributable to net non-cash impairment charges of $117.3 million and $54.4 million, respectively, related to the Hawler license area
- Net cash generated by operating activities was $22.1 million in 2020 versus $28.1 million in 2019
- Net cash used in investing activities during 2020 was $18.8 million including payments related to drilling and facilities work in the Hawler license area and related license costs
- $13.2 million of cash and cash equivalents as of December 31, 2020

- Total liabilities decreased by 29% to $149.0 million primarily the result of settling the Loan Agreement with AOG in full by transferring to an affiliate of AOG the Corporation's shares of OP AGC Central Limited, the former wholly-owned subsidiary of the Corporation that holds interests in the AGC Central License Area. The loan balance (including accrued and unpaid interest) at the time of settlement amounted to $80.5 million. A $26.9 million gain was recognised on settlement of the loan
- The transfer of OP AGC Central Limited also eliminated $30 million of minimum exploration drilling obligations
- The reduction in liabilities was net of an $18.4 million increase in the decommissioning provision, arising primarily from amendments to the partner carry terms under the Hawler production sharing contract

2020 Operations Highlights:

- Average gross (100%) oil production of 10,600 bbl/d (working interest 6,900 bbl/d) for the year ended December 31, 2020 versus 11,700 bbl/d (working interest 7,600 bbl/d) for the year ended December 31, 2019
    - 10% decrease in gross (100%) oil production in 2020 versus 2019 primarily attributed to Banan field wells which were shut-in for three months from early April 2020 in order to optimise economics; 4% increase in gross (100%) oil production in Q4 2020 versus Q3 2020
- Notwithstanding a difficult year resulting from the worldwide outbreak of the COVID-19 virus, which led to suspension of the Corporation's 2020 capital expenditure program from March through September 2020, Forza Petroleum managed to maintain its operations while preserving the safety of its workforce, advanced the appraisal of the Banan field east of the Great Zab river with a sidetrack of the previously drilled Banan-1 well early in 2020, continued efforts to reduce operating expense per bbl with a workover of the Banan-4 well to replace artificial lift equipment and undertook all preparatory work necessary for a new well targeting the Tertiary reservoir of the Zey Gawra field, spudded on January 1, 2021
- As oil prices began to recover, in July 2020, the Corporation quickly resumed production from Banan field wells that had been temporarily shut-in
- Gross (working interest) proved plus probable oil reserves of 62 million bbl estimated by Netherland, Sewell & Associates, Inc. as at December 31, 2020

2021 Operations Update:

- Average gross (100%) oil production of 11,600 bbl/d (working interest 7,600 bbl/d) and 11,100 bbl/d (working interest 7,200 bbl/d) in January and February 2021, respectively
    - Production rates were a little down on Q4 2020, primarily as the result of reducing the rates of the Banan-5 and Banan-6 wells in the portion of the Banan field west of the Great Zab river to avoid excess production of water
- A new well targeting the Tertiary reservoir of the Zey Gawra field, Zey Gawra-5, was completed during the first week of February 2021. The well is on production flowing 32-degree API oil at solution gas-oil ratio with no water. Production rates from the well are currently restricted but steadily being increased as facilities are being optimized to accommodate the incremental production
- Preparations are underway to spud in April 2021 a well targeting the Cretaceous reservoir of the Banan field east of the Great Zab river, a new reservoir not yet in production. A new well pad, security infrastructure and access road have been constructed in this area where the Corporation has not yet drilled
- For the balance of 2021, the Corporation plans to drill three further wells: one in the Zey Gawra field targeting the Cretaceous reservoir, one in the Banan field east of the Great Zab river targeting the Tertiary reservoir and a well in the Demir Dagh field targeting the Cretaceous reservoir

- The Corporation also plans to install a gathering system to eliminate trucking in the western part of the Hawler license area to reduce environmental impact and operating expense, and undertake other facilities and maintenance activity
- The worldwide outbreak of the COVID-19 virus, including within Iraq, has not significantly impacted operations. The Corporation is taking precautions to protect its employees and contractors but does not at this time expect that the virus outbreak will restrict operations

Liquidity Outlook:

- The Corporation expects cash on hand as of December 31, 2020 and cash receipts from net revenues from export sales exclusively through the Kurdistan Oil Export Pipeline to fund its forecasted capital expenditures and operating and administrative costs through the end of 2021, and to settle all payables currently due to suppliers. At the moment, the contingent consideration obligation is anticipated not to become payable before 2022.

CEO's Comment

Commenting today, Forza Petroleum's Chief Executive Officer, Vance Querio, stated:

"2020 was a transformational year for Forza Petroleum. The very significant fall in the price of oil in March 2020 led the Corporation to take immediate steps to reduce costs and to preserve capital by suspending capital expenditure, reducing head office headcount and temporarily shutting in some production in order to optimise economics. 2020 saw a change in control of the Corporation and a new name, Forza Petroleum. The Corporation was also able to settle $80.5 million in borrowings in full, and to eliminate $30 million in near-term minimum exploration drilling obligations, by transferring the Corporation's interests in the AGC Central exploration license.

With a lean organization focused on the Hawler license area and a rebounding oil market, we are excited about the opportunity that our 2021 work program provides to increase production and to better define the remaining development potential of the four fields in the Hawler license area. The year started with the successful Zey Gawra-5 now producing from the Tertiary reservoir of the Zey Gawra field, a formation which had no oil reserves attributed to it at December 31, 2020. Later this year, we will drill the Tertiary reservoir of Banan field east of the Great Zab river. Although oil reserves were attributed to the formation at December 31, 2020, this will be our first well targeting the formation and we look forward to incremental production from the well contributing to increasing production rates during 2021. Planned completion of the Ain al Safra-2 well in the Triassic reservoir will allow us to evaluate the potential of deeper resources in a geologic region seeing increased activity in adjacent blocks.

It is noteworthy that higher oil prices since the start of the year allow us to forecast that our work program can be funded entirely from internally generated cash flow.

We look forward to implementing our plans safely in 2021 and to higher production from the Hawler license area."

Selected Financial Results

Financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") and the reporting currency is US dollars. References in this news release to the "Group" refer to Forza Petroleum and its subsidiaries. The following table summarises selected financial highlights for Forza Petroleum for the three- and twelve- month periods ended December 31, 2020 and December 31, 2019.

	Three Months Ended December 31		Twelve Months Ended December 31	
($ in millions unless otherwise indicated)	2020	2019	2020	2019
Revenue	23.9	40.9	82.0	150.5

Working Interest Production (bbl)	728,600	780,700	2,511,500	2,780,800
Average WI Production per day (bbl/d)	7,900	8,500	6,900	7,600
Working Interest Oil Sales (bbl)	728,900	777,800	2,512,100	2,781,000
Average Realised Sales Price ($/bbl)	27.44	47.32	28.23	48.72
Operating Expense	6.5	7.6	24.8	28.9
Field Production Costs ($/bbl)[1]	5.83	7.44	6.93	7.96
Field Netback ($/bbl)[2]	7.32	16.05	6.79	15.95
Operating expenses ($/bbl)	8.97	9.73	9.87	10.41
Forza Petroleum Netback ($/bbl)[3]	9.50	19.00	8.25	18.90
Profit (Loss)	114.6	(81.3)	(108.7)	(59.2)
Basic and Diluted Earnings (Loss) per Share ($/sh)	0.20	(0.15)	(0.19)	(0.11)
Operating Funds Flow[4]	5.8	(3.9)	13.7	26.9
Net Cash generated from / (used in) Operating Activities	8.6	(1.6)	22.1	28.1
Net Cash used in Investing Activities	(6.4)	(10.0)	(18.8)	(35.1)
Capital Expenditure	10.9	13.4	36.5	38.2
Cash and Cash Equivalents	13.2	8.9	13.2	8.9
Total Assets	605.4	768.3	605.4	768.3
Total Liabilities	149.0	209.2	149.0	209.2
Total Equity	456.4	559.1	456.4	559.1

(1) Field production costs represent Forza Petroleum's working interest share of gross production costs and exclude the partner share of production costs carried by Forza Petroleum.
(2) Field Netback is a non-IFRS measure that represents the Group's working interest share of oil sales net of the Group's working interest share of royalties, the Group's working interest share of operating expenses and the Group's working interest share of taxes. Management believes that Field Netback is a useful supplemental measure to analyse operating performance and provides an indication of the results generated by the Group's principal business activities prior to the consideration of production sharing contract and joint operating agreement financing characteristics, and other income and expenses. Field Netback does not have a standard meaning under IFRS and may not be comparable to similar measures used by other companies.
(3) Forza Petroleum Netback is a non-IFRS measure that represents Field Netback adjusted to reflect the impact of carried costs incurred and recovered through the sale of cost oil during the reporting period. Management believes that Forza Petroleum Netback is a useful supplemental measure to analyse the net cash impact of the Group's principal business activities prior to the consideration of other income and expenses. Forza Petroleum Netback does not have a standard meaning under IFRS and may not be comparable to similar measures used by other companies.
(4) Operating Funds Flow is a non-IFRS measure that represents cash generated from operating activities before changes in non-cash assets and liabilities. The term Operating Funds Flow should not be considered an alternative to or more meaningful than "cash flow from operating activities" as determined in accordance with IFRS. Management considers Operating Funds Flow to be a key measure as it demonstrates the Group's ability to generate the cash flow necessary to fund future growth through capital investment. Operating Funds Flow does not have any standardised meaning prescribed by IFRS and may not be comparable to similar measures used by other companies.

- Revenue decreased to $82.0 million in 2020 versus $150.5 million in 2019 due to a 42% decrease in average oil sales prices and a 10% decrease in oil sales volumes. Gross (working interest) production and sales of oil in 2020 were 2,511,500 barrels and 2,512,100 barrels, respectively, versus 2,780,800 barrels and 2,781,000 barrels, respectively, for 2019. The average oil sales price realised in 2020 was $28.23 per barrel versus $48.72 for 2019. In addition to oil sales, revenue includes the recovery of carried costs.

- Operating expenses decreased 14% to $24.8 million in 2020 versus $28.9 million in 2019, primarily attributable to shutting in Banan field operations for three months from early April 2020 due to poor economics, combined with cost savings from the Banan-4 workover executed in the fourth quarter of 2020. Operating expenses on a per barrel basis declined 5% in 2020 versus 2019 as there are higher variable operating costs associated with shut-in production from the Banan field than other production in the license area. The Forza Petroleum Netback achieved in 2020 of $8.25 per barrel reflects the Field Netback plus adjustments for carried costs. The Forza Petroleum Netback is down 56% compared to 2019 primarily as a result of a decrease in realised sales prices.
- General and administration expenses decreased to $9.5 million in 2020 versus $12.0 million in 2019 due primarily to a corporate restructuring implemented in Q2 2020.
- Loss for the year ended December 31, 2020 was $108.7 million compared to a $59.2 million loss in 2019. The lower result is primarily attributable to i) a $117.3 million net impairment expense in 2020 compared to a $54.4 million impairment expense in 2019, both on the Hawler license area, ii) a decrease in net revenue of $37.0 million during 2020 in comparison with 2019, and iii) $0.1 million charge related to the change in fair value of contingent consideration during 2020 versus $15.2 million in income during 2019. These negative variances were partially offset by i) a $26.9 million gain recorded on the settlement of the Loan Agreement with AOG, and ii) non-recurrence of charges in 2019 in relation to the Haute Mer B exploration license comprising an impairment of assets held for disposal of $13.3 million and a provision for an adverse arbitration judgment and award of $15.7 million.
- Net cash generated by operating activities was $22.1 million in 2020 as compared to net cash generated by operating activities of $28.1 million in 2019. The decrease mainly reflects lower revenues and netback.
- Net cash used in investing activities decreased to $18.8 million in 2020 as compared to $35.1 million in 2019 reflecting decreased cash outflows for drilling during 2020 related to suspension of the Corporation's capital expenditure program for half the year.
- Capitalised cost additions in 2020 totalled $36.5 million as compared to $38.2 million in 2019. In 2020, the Corporation invested $7.8 million in drilling costs and costs related to preparation for drilling and capitalised $7.5 million of Hawler license costs during 2020. Expenditure of $1.6 million on facilities and $0.7 million on studies and support were also incurred in the period, in each case relating to the Hawler license area. 2020 capitalised cost additions also include a $18.4 million non-cash increase largely related to increased estimated future, decommissioning cash outflows primarily as a result of the amendments in 2020 to the Hawler production sharing contract, together with changes in discount and inflation rates used to calculate the decommissioning provision.
- Cash and cash equivalents increased to $13.2 million at December 31, 2020 from $8.9 million at December 31, 2019 reflecting positive Operating Funds Flow, movements in non-cash working capital and cash generated by financing activities, partially offset by capital expenditures.
- The Corporation is obligated to make further payments to the vendor of the Hawler license area contingent upon declaration of a second commercial discovery in the Hawler license area.
  - In the event the contingent obligation is triggered, a lump-sum payment of $66.0 million plus accrued interest is payable. The estimated fair value of the contingent consideration as at December 31, 2020 was $56.6 million. As at December 31, 2020, the total balance of principal and accrued interest potentially owed under the contingent consideration obligation was $76.4 million.
  - Prior to the contingent obligation being triggered, the Corporation expects to agree an amendment with the vendor which would allow the Corporation to settle the obligation over several years.
- As at March 18, 2021, there are outstanding: (i) 578,197,218 common shares, (ii) unvested Long Term Incentive Plan awards which are expected to result in the issuance of up to an additional 16,716,008 common shares upon vesting, and (iii) 39,281,804 warrants that were issued in connection with amendments to the historical Loan Agreement with AOG.

Regulatory Filings

This announcement coincides with the filing with the Canadian securities regulatory authorities of Forza Petroleum's audited condensed consolidated financial statements for the year ended December 31, 2020 and the related management's discussion and analysis thereon. Copies of these documents filed by Forza Petroleum may be obtained via www.sedar.com and the Corporation's website, www.forzapetroleum.com.

ABOUT FORZA PETROLEUM LIMITED

Forza Petroleum Ltd. (formerly Oryx Petroleum Corporation Limited) is an international oil exploration, development and production company. The Corporation's shares are listed on the Toronto Stock Exchange and trade under the symbol "FORZ". Forza Petroleum has a 65% participating interest in and operates the Hawler license area in the Kurdistan Region of Iraq, which has yielded oil discoveries in four areas, three of which are contributing to production while appraisal and development activity continues. Further information about Forza Petroleum is available at www.forzapetroleum.com or under Forza Petroleum's profile at www.sedar.com.

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Reader Advisory Regarding Forward-Looking Information

Certain statements in this news release constitute "forward-looking information", including statements related to forecast work program and capital expenditure, drilling and well workover plans, development plans and schedules and chance of success, future drilling of wells and the reservoirs to be targeted, future facilities work, ultimate recoverability of current and long-term assets, possible commerciality of our projects, future expenditures and sources of financing for such expenditures, expectations that cash on hand as of December 31, 2020 and cash receipts from net revenues from export sales exclusively through the Kurdistan Oil Export Pipeline will fund the Corporation's forecasted capital expenditures and operating and administrative costs through the end of 2021 and to settle all payables currently due to suppliers, the issuance of shares as a result of the vesting of Long Term Incentive Plan awards and the exercise of warrants, future requirements for additional funding, the expected timing for receipt of payment for outstanding oil sales invoices for the months of November 2019, December 2019, January 2020, and February 2020 and future oil sales invoices, expectations that the COVID-19 virus outbreak will not restrict operations, plans to continue focus on minimizing costs, estimates for the fair value of the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, the expected timing for settlement of liabilities including the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, and statements that contain words such as "may", "will", "could", "should", "anticipate", "believe", "intend", "expect", "plan", "estimate", "potentially", "project", or the negative of such expressions and statements relating to matters that are not historical fact, constitute forward-looking information within the meaning of applicable Canadian securities legislation.

Although Forza Petroleum believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. For more information about these assumptions and risks facing the Corporation, refer to the Corporation's Annual Information Form dated March 23, 2020 available at www.sedar.com and the Corporation's website at www.forzapetroleum.com. Further, statements including forward-looking information in this news release are made as at the date they are given and, except as required by applicable law, Forza Petroleum does not intend, and does not assume any obligation, to update any forward-looking information, whether because of new information, future events or otherwise. If the Corporation does update one or more statements containing forward-looking information, it is not obligated to, and no inference should be drawn that it will make additional updates with respect thereto or with respect to other forward-looking information. The forward-looking information contained in this news release is expressly qualified by this cautionary statement.

Reader Advisory Regarding Certain Figures

Unless provided otherwise, all production and capacity figures and volumes cited in this news release are gross (100%) values, indicating that figures (i) have not been adjusted for deductions specified in the production sharing contract applicable to the Hawler license area, and (ii) are attributed to the license area as a whole and do not represent Forza Petroleum's working interest in such production, capacity or volumes.

Reserves and Resources Advisory

Forza Petroleum's reserves estimates have been prepared and evaluated by Netherland, Sewell & Associates, Inc., an independent oil and gas consulting firm, with effective date as at December 31, 2020, in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

Proved oil reserves are those reserves which are most certain to be recovered. There is at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved oil reserves. Probable oil reserves are those additional reserves that are less certain to be recovered than proved oil reserves. There is at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable oil reserves. Volumes are based on commercially recoverable volumes within the life of the production sharing contract.

See the Material Change Report filed by the Corporation on March 10, 2021 for more information regarding Forza Petroleum's reserves and resources estimates.

To view the source version of this press release, please visit https://www.newsfilecorp.com/release/77877