

8 March 2011

## **FORUM ENERGY PLC**

**(“Forum Energy” or the “Company”)**

### **Audited results for the year ended 31 December 2010**

Forum Energy, the UK incorporated oil and gas exploration and production company with a focus on the Philippines, today announces its audited results for the year ended 31 December 2010.

#### **OPERATIONAL HIGHLIGHTS**

- Conversion of the GSEC101 licence to Service Contract 72 in February 2010
- First sub-phase work programme ongoing and 2D and 3D seismic surveys on track for completion within Q1 2011
- Galoc production of 61,000 barrels in 2010 (net to Forum) and expected 40,000 barrels (net to Forum) in 2011. Forum has a 2.27% interest in the Galoc field

#### **FINANCIAL AND CORPORATE HIGHLIGHTS**

- Revenues of US\$6.1 million in 2010 (US\$1.8 million – 2009)
- Gross Profit of US\$2.1 million in 2010 (US\$0.2 million – 2009)
- Fixed overhead costs US\$2.4 million in 2010 (US\$2.6 million – 2009)
- Working capital of US\$1.7 million as of 31 December 2010 (US\$4.1 million – 2009)
- Facility Agreement with Philex Mining Corporation for US\$10 million to be utilized within 3 years
- Shareholders’ equity of US\$44 million as of 31 December 2010 (US\$44 million – 2009)

Robin Nicholson, Executive Chairman, commented:

“The main development in 2010 was the final conversion of the GSEC101 licence area to a Service Contract in February 2010 and the implementation of the first sub-phase work programme which includes a further 550 Km<sup>2</sup> of 3D seismic and 2,200 line Km of 2D seismic, expected to be completed within Q1 2011. In addition, the Company progressed discussions with potential strategic partners. A facility agreement with Philex Mining for US\$10 million has enabled Forum to progress the development of its principal asset and we look forward to further developments at a critical point in the Company’s development.”

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## **OVERVIEW**

The Company's principal asset is a 70% interest in Service Contract 72 ("SC72") an 8,800-square kilometer (Km<sup>2</sup>) offshore petroleum licence situated west of Palawan Island in the South China Sea. In 2006, results from a 248-square kilometre 3D seismic survey over the licence area indicated a mean volume of 3.4TCF gas-in-place (GIP) with significant upside.

During 2008, Philex Mining Corporation ("Philex") a company listed on the Philippine Stock Exchange, acquired an effective 61.44% controlling stake (held directly and indirectly) in the Company. An additional fundraising in November 2009 of £1.5 million at 50p increased Philex's stake (held directly and indirectly) to 62.59%. Philex now controls 64.45% of the ordinary share capital of the Company.

In 2010, the Company entered into a US\$10 million facility agreement with Philex. The facility is available for a 3 year period at an interest rate of US LIBOR + 4.5% and will enable the Company to fund its 70% share of the first sub-phase work programme over SC72.

The first sub-phase work programme over SC72 is estimated to cost approximately US\$7.4 million. This work programme is designed to provide a more comprehensive evaluation of the SC72 property and to identify potential sites for appraisal wells. The work programme includes 3D seismic work over an area of 550 Km<sup>2</sup> over and around the Sampaguita Gas Discovery, and 2,200 line-Km of high resolution 2D over existing leads within the 8,800 Km<sup>2</sup> contract area. The acquisition of the seismic data is ongoing and is expected to be completed within Q1 2011.

In addition to moving ahead with the approved work programme, the Company continues to have discussions with potential strategic partners for the purpose of accelerating the development of SC72.

The Company's shares are traded on AIM under the symbol FEP.

## **ASSET SUMMARY**

### **SC72**

In February 2010, the GSEC101 exploration licence was converted into Service Contract 72. The area of the block was reduced from 10,360 Km<sup>2</sup> to 8,800 Km<sup>2</sup> as part of this conversion.

The block contains the Sampaguita Gas Discovery with mean GIP of 3.4TCF and a number of additional leads. In 2008, a Joint Venture ("JV") was formed with Monte Oro Resources and Energy, Inc. ("MORE") which qualified the JV for the Filipino Participation Incentive Allowance ("FPIA"). Through a 30% farm-out to MORE, the JV will receive 7.5% of any gross revenues, prior to sharing revenues with the government. The Company is currently carrying out 550 Km<sup>2</sup> of 3D seismic and 2,200 line-Km of high resolution 2D seismic over the block. The acquisition programme is expected to be completed within Q1 2011.

Forum is also assessing potential partnerships in SC72 to accelerate the development of the project.

## **NW PALAWAN**

Forum's main interest in this area is a 2.27% interest in the producing Galoc Field. Galoc produced 2.69 million barrels in 2010 with an estimated 1.76 million barrels expected to be produced in 2011. Forum received net revenues after deduction of share of operating costs of US\$4.1 million in 2010 (US\$0.8 million – 2009).

Forum also has nominal production from the SC6/14 Nido / Matinloc fields also contained within this block.

#### **SC40**

The SC40 block, in which Forum has a 66.67% interest, contains numerous onshore prospects and leads and significant offshore potential. In addition, the Libertad Gas Field contained within the block is now currently being developed with DESCO and first production is anticipated in Q3 2011. Further ventures to produce across this significant acreage are underway and the Company has completed a land based gravity survey over the concession to identify possible additional drillable prospects.

The Company's Hycalog drilling rig is located in the Central Maya Bulge (CMB) area located in the Northern area onshore SC40 and can be transported via land and utilized for further drilling activities contingent on the results of the Company's ongoing exploration programme.

### **EXECUTIVE CHAIRMAN'S STATEMENT**

The Group recorded a gross profit of US\$2,059,000 for the 12 months ended 31 December 2010 compared to US\$196,000 profit for the previous year. Our revenues increased by 240% to US\$6,068,000, our G&A costs remained steady at US\$2.4million.

Loss before tax decreased by 78% to US\$558,000 compared to a loss of US\$2,497,000 for the previous year.

The Group's working capital decreased from US\$4.1million to US\$1.7million, primarily due to capital spending during the year on SC72 first sub-phase.

The main development in 2010 was the final conversion of the GSEC101 licence area to a Service Contract in February and the implementation of the first sub-phase work programme which includes a further 550 Km<sup>2</sup> of 3D seismic and 2,200 line Km of 2D seismic, expected to be completed within Q1 2011. In addition, the Company progressed discussions with potential strategic partners.

#### **SC72 (70% interest)**

The SC72 licence covers an area of 8,800 Km<sup>2</sup> and contains the Sampaguita Gas Discovery with mean gas-in-place (GIP) of 3.4TCF and a number of additional leads. In 2008, a Joint Venture ("JV") was formed with Monte Oro Resources and Energy, Inc. (MORE) which qualified the JV for the Filipino Participation Incentive Allowance (FPIA). Through a 30% farm-out to MORE, the JV will receive 7.5% of any gross revenues, prior to sharing revenues with the government. In February 2010, the GSEC exploration licence in relation to the licence area was converted into a Service Contract.

The Company is currently carrying out 550 Km<sup>2</sup> of 3D seismic and 2,200 line-Km of high resolution 2D seismic over the block. The acquisition programme is expected to be completed within Q1 2011.

The Company is also assessing potential partnerships in SC72 to accelerate the development of the project, although there are no proposals currently in place.

#### **Galoc (2.27% interest)**

Production from the Galoc development reached 2.69 million barrels gross in 2010 (61,000 barrels net to the Company) and is expected to produce 1.76 million barrels in 2010 (40,000 barrels net to the Company). The Company has a 2.27% interest in the field and received US\$4.1 million after deduction of share of operating costs, from crude sales from the field in 2010. A second phase of development has recently been deferred to 2012.

#### **SC40 (66.67% interest)**

The Gas Sale and Purchase Agreement with DESCO, a well established drilling company in the Philippines, was approved by the Department of Energy in July 2009 and production from the Libertad field is expected to start within this year. In addition, further ventures to produce across this significant acreage are underway and the Company has commenced a land based gravity survey over the Central Maya Bulge (CMB) area to the north of the concession to identify possible additional drillable prospects. The Company's Hycalog drilling rig is also located in the CMB area and may be utilized for further drilling activities contingent on the results of the Company's ongoing exploration programme.

### **Financial Results and Key Financial Indicators**

Revenue increased 240% from US\$1,786,000 in 2010 to US\$6,068,000 in the current year due to full production at Galoc and a 23% increase in oil prices during 2010. The Board will continue to seek to maximize the revenue streams for the Group.

The Group recorded a gross profit of US\$2,059,000 for the 12 months ended 31 December 2010 compared to US\$196,000 for the previous year due to the increased share of revenue from the Galoc field as the operator has now fully recovered development costs, and to the increase in price of oil

Total administrative expenses remained steady at US\$2.4 million. The Board will continue to monitor the Group's expenses in order to ensure value for money is always obtained for services provided to the Group.

Financial income and expenses recorded a net loss of US\$220,000 compared to a net loss of US\$115,000 in the previous year primarily due to unrealised losses on a Philippines peso-based long term creditor.

The loss from continued operations before tax therefore reduced by 78% to US\$558,000 from US\$2.4 million in 2009.

This generated a loss per share of US\$0.013 (2009: US\$0.119).

### **Cash Flow and Capital Expenditure**

The Company's working capital decreased from US\$4.1 million to US\$1.7 million. However, the Company has a facility agreement with Philex for US\$10 million over 3 years to be principally utilized to carry out the first sub-phase Work Programme over SC72. The drawdown of the facility is expected in March 2011.

### **Statement of Financial Position and Financing**

The Group has no long-term debt, with the exception of a liability it has recognised to Forum Exploration Inc (FEI), which will become payable as and when the cost recovery commences from production in SC40.

The non-controlling interest represents a 33.33% holding by a minority shareholder in FEI and thus reflects its net share in the recognised losses or profits for the period.

### **Outlook for 2011**

The completion of our first sub-phase work programme over Service Contract 72 will be a milestone for the Company since the last data acquisition which was concluded over 5 years ago. We expect that this data will give us significant additional information that will enable the Company to better assess the various development scenarios and potential partnership options for the SC72 block at a critical time in the development of this important asset.

### **Summary**

We take this opportunity to thank our shareholders, our staff and the board of directors, employees and consultants for their valuable assistance in our endeavors to add value to your investment in the Company.

Yours sincerely,

**Robin Nicholson**

Executive Chairman

8 March 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Revenue		6,068	1,786
Cost of sales		(4,009)	(1,590)
Gross profit		2,059	196
Other administrative expenses		(2,397)	(2,242)
Share-based payments expense		-	(336)
Total administrative expenses		(2,397)	(2,578)
Loss from operations		(338)	(2,382)
Finance income		15	2
Finance expenses		(235)	(117)
Loss before tax		(558)	(2,497)
Taxation		-	102
Loss from continued operations		(558)	(2,395)
Loss on discontinued operations, net of tax		-	(1,332)
Loss for the year		(558)	(3,727)
Total comprehensive loss for the year		(558)	(3,727)
Total comprehensive loss attributable to:			
Owners of the parent		(438)	(3,618)
Non-controlling interests		(120)	(109)
		(558)	(3,727)
Loss per ordinary share (US\$) attributable to equity holders of the parent			
Basic and diluted	3	(0.013)	(0.119)
Loss per ordinary share (US\$) on continued operations			
Basic and diluted	3	(0.013)	(0.075)
Loss per ordinary share (US\$) on discontinued operations			
Basic and diluted	3	(0.000)	(0.044)

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Retained deficit US\$'000	Total US\$'000	Non- Controlling interest US\$'000	Total capital and reserves US\$'000
<b>Group</b>							

Balance as at 1 January 2009	5,443	48,938	157	(10,708)	43,830	1,563	45,393
Total comprehensive loss for the year	-	-	-	(3,618)	(3,618)	(109)	(3,727)
Share-based payment	-	-	336	-	336	-	336
Issue of shares (net of issue costs)	498	1,931	-	-	2,429	-	2,429
Balance as at 1 January 2010	5,941	50,869	493	(14,326)	42,977	1,454	44,431
Total comprehensive loss for the year	-	-	-	(438)	(438)	(120)	(558)
Transfer to retained deficit	-	-	(55)	55	-	-	-
Issue of shares (net of issue costs)	41	95	-	-	136	-	136
Balance as at 31 December 2010	5,982	50,964	438	(14,709)	42,675	1,334	44,009

The share premium account holds the balance of consideration received in excess of the par value of the shares. The share premium account can be used to pay any unpaid subscriptions.

The share option reserve relates to the cumulative fair value of options charged to the statement of comprehensive income adjusted for transfer on exercise, cancellation or expiry.

The deficit reserve is the cumulative net gains and losses recognised in the statement of comprehensive income adjusted for transfer on exercise, cancellation or expiry of options from the share option reserve.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

	Note	2010 US\$'000	2009 US\$'000
<b>Assets</b>			
Non-current assets			
Property, plant and equipment		3,673	4,168
Intangible assets	4	42,630	40,859
Investments		18	5
<b>Total non-current assets</b>		<b>46,321</b>	<b>45,032</b>
Current assets			
Inventories		419	65
Trade and other receivables		1,151	639
Cash and cash equivalents		2,464	4,172
<b>Total current assets</b>		<b>4,034</b>	<b>4,876</b>
<b>Total assets</b>		<b>50,355</b>	<b>49,908</b>
<b>Liabilities:</b>			
Non-current liabilities			
Other liabilities and provisions		3,994	4,667
<b>Total non-current liabilities</b>		<b>3,994</b>	<b>4,667</b>
Current liabilities			
Trade payable and other payables		2,352	810

Total current liabilities	2,352	810
Total liabilities	6,346	5,477
Total net assets	44,009	44,431
Capital and reserves attributable to equity holders of the Company		
Share capital	5,982	5,941
Share premium reserve	50,964	50,869
Share option reserve	438	493
Deficit	(14,709)	(14,326)
	42,675	42,977
Non-controlling interests	1,334	1,454
Total equity	44,009	44,431

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Year ended 31 December 2010 US\$'000	Year ended 31 December 2009 US\$'000
Cash flows from operating activities		
Loss before tax for the year	(558)	(3,829)
<i>Adjustments for:</i>		
Depreciation	2,454	796
(Gain)/loss on financial assets	(13)	3
Finance income	(2)	(2)
Finance expenses	35	-
Equity settled share-based payment expense	-	336
	1,916	(2,696)
(Increase)/decrease in trade and other receivables	(512)	1,124
(Increase)/decrease in inventories	(354)	12
Increase in trade and other payables	843	178
Increase in provisions and employee benefits	26	21
Net cash flows from operating activities	1,919	(1,361)
Investing activities		
Purchase of property, plant and equipment	(2,001)	(21)
Disposal of property, plant and equipment	42	-
Purchase of intangible assets	(1,771)	(253)
Sale of discontinued operations	-	813
Interest received	2	2
Net cash from investing activities	(3,728)	541
Financing activities		
Issue of ordinary share capital (net of issue costs)	136	2,429
Net cash from financing activities	136	2,429
Net (decrease)/increase in cash and cash equivalents	(1,673)	1,609

Cash and cash equivalents at beginning of the year	4,172	2,574
Exchange losses on cash and cash equivalents	(35)	(11)
Cash and cash equivalents at end of the year	2,464	4,172

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 1 ACCOUNTING POLICIES

#### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards IFRSs and IFRIC interpretations, issued by the International Accounting Standards Board (IASB) as endorsed for use in the EU ('IFRSs') and those parts of the Companies Act 2006 that are applicable to companies that prepare their financial statements under IFRS.

The financial information for the years ended 31 December 2010 and 31 December 2009 does not constitute statutory accounts as defined by section 435 of the Companies Act 2006 but is extracted from the audited accounts for those years. The 31 December 2009 accounts have been delivered to the Registrar of Companies. The 31 December 2010 accounts will be delivered to Companies House within the statutory filing deadline. The auditors have reported on those accounts; their report was unqualified and did not contain statements under Section 498 (2) of (3) of the Companies Act 2006.

### 2 SEGMENT ANALYSIS

The Group operated in one principle operating segment, 'the exploration for and production of oil and gas'.

All the Group's oil and gas revenues are generated in the Philippines and are made to Philippine based customers as shown in the consolidated statement of comprehensive income.

All the Group's non-current assets are located in the Philippines as shown in the consolidated statement of financial position.

### 3 LOSS PER SHARE

Loss per Ordinary Share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue for the period is 33,256,478 (2009: 30,372,599).

Losses for the Group attributable to the equity holders of the Company for the year are US\$438,000 (2009: US\$3,618,000).

Losses for the Group attributable to the equity holders of the Company for the year on continued operations are US\$438,000 (2009: US\$2,286,000).

Losses for the Group attributable to the equity holders of the Company for the year on discontinued operations are US\$ Nil (2009: US\$1,332,000).

The effect of the share options in issue under the Share Option Plan is anti-dilutive.

### 4 INTANGIBLE ASSETS

Group	Unevaluated Oil, Gas and Mining Costs US\$'000	Unevaluated Oil, Gas and Mining Costs US\$'000
	2010	2009
Cost and Net book value		
At 1 January	40,859	40,606
Additions	1,771	253
At 31 December	42,630	40,859

The unevaluated oil, gas and mining costs relate to the acquisition of the Group's assets in the Philippines.

The net book value of assets included within intangible fixed assets are as follows:

SC40 – US\$28,689,000 (2009: US\$28,372,000)

SC72 – US\$13,720,000 (2009: US\$12,266,000)

Others – US\$221,000 (2009: US\$221,000).

The Group have considered the intangible assets for indications of impairment and have concluded that as no indicators exist an impairment provision is not required.

## 5 COMMITMENTS

At 31 December 2010, the Group and Company had commitments totalling US\$3 million in operational and exploration expenditure, for the first sub phase programme over Service Contract SC72 ("SC72") (31 December 2009: None).

## 6 RELATED PARTY TRANSACTIONS

During the year the following related party transactions occurred within the Group and Company:

Philex Mining Corporation are the majority shareholder and ultimate controlling party of the Group. The Group performed consultancy services for Philex Petroleum Corporation, a wholly owned subsidiary of Philex Mining Corporation, and received total fees of US\$ Nil in year (2009: US\$194,500).

Forum Philippines Holdings Ltd, a wholly owned subsidiary of the Company, entered into a US\$10m Facility Agreement ("the Facility") with Philex Mining Corporation on 24 November 2010.

The Facility will be available for a 3 year period from the 24 November 2010 and funds can be borrowed at an interest rate of US LIBOR + 4.5%. The principle use of the facility was is to enable the Company to fund its 70% share of a first sub-phase work programme over Service Contract 72 ("SC72"). Obligations arising from funds drawn under this Facility are not convertible into the Company's or Forum Philippines' ordinary shares.

Amounts due to Philex Mining Corporation in respect of this facility agreement as at 31 December 2010 amounted to US\$ Nil (2009: US\$ Nil). Arrangement fees paid to Philex Mining Corporation during the year for the facility were US\$200,000 (2009: US\$ Nil).

The first drawdown of the facility is expected to occur in March 2011 in the amount of US\$1,000,000.

## 7 CONTINGENT LIABILITIES

The Company has potential additional consideration of up to US\$ 9.03 million (2009: US\$10.84 million) payable on the acquisition of Basic Petroleum & Minerals Inc. During 2010 US\$1,797,000 was paid and an additional US\$1,176,000 has been provided for based on latest field production estimates for the Galoc oil field. This amount is disclosed within current liabilities. Payments of the remaining US\$7.87 million are dependent upon future field production levels from the acquired oil and gas assets. The Directors consider that the maximum of any potential payments will not materialise, due to acquired field development plans.