

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

FOR THE THREE MONTHS ENDED  
MARCH 31, 2021 AND 2020



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements of Forza Petroleum Limited ("FPL" or, the "Company") and its subsidiaries for the three months ended March 31, 2021 and 2020 (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The date of this MD&A is May 6, 2021.

Unless otherwise noted, all amounts are in thousands of U.S. dollars.

Selected terms and abbreviations used in this MD&A are listed and described in the "Glossary and Abbreviations" section.

This MD&A contains non-IFRS measures. Please refer to the "Non-IFRS Measures" section for further information.

Readers should refer to the "Forward-Looking Information" advisory on page 15. Additional information relating to FPL, including FPL's Annual Information Form dated March 23, 2021, is on SEDAR at [www.sedar.com](http://www.sedar.com).

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## Company Overview

The Company is a public company incorporated in Canada under the Canada Business Corporations Act and is the holding company for the Forza Petroleum group of companies (together, the "Group" or "Forza Petroleum"). The Group has a 65% Working Interest in and operates the Hawler License Area in the Kurdistan Region of Iraq ("KRI"), which has yielded the discovery of four oil fields, three of which are currently producing.

## Operational Highlights

- Average gross (100%) oil production of 11,500 bbl/d (working interest 7,500 bbl/d) in Q1 2021;
- Average gross (100%) oil production of 12,400 bbl/d (working interest 8,000 bbl/d) for April 2021, increased from Q1 2021 primarily as a result of the incremental contribution from the Zey Gawra-5 well completed and put on production in February 2021;
- The Banan-8 well targeting the Cretaceous reservoir of the Banan field east of the Great Zab river was spudded on April 14, 2021. The well has reached total depth in a planned pilot hole and evaluation of the Cretaceous reservoir is underway. Recently completed evaluation of the shallow Tertiary Pila Spi reservoir revealed that there is no oil column in the reservoir at this location. The Group continues to analyse the results to determine where the Tertiary reservoir can be successfully developed east of the Great Zab river and how the recently obtained data may impact reserves that were attributed to the Banan Pila Spi reservoir at December 31, 2020;
- The worldwide outbreak of the COVID-19 virus, including within Iraq, has not significantly impacted operations. The Group has taken precautions to protect its employees and contractors but does not at this time expect that the virus outbreak will restrict operations.

## Financial Highlights and Outlook

### Liquidity outlook

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

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### Financial performance

The following table contains financial performance highlights for the three months ended March 31, 2021 and March 31, 2020.

(\$ thousands unless otherwise stated)	Three months ended	
	March 31, 2021	March 31, 2020
Revenue	35,728	31,859
Cash generated from operating activities	4,207	6,805
Cash generated from operating activities per basic and diluted share (\$/share)	0.01	0.01
Profit / (Loss) for the period	21,165	(249,590)
Earnings / (Loss) per basic and diluted share (\$/share)	0.04	(0.45)
Average sales price (\$/bbl)	44.44	34.03
Field production costs <sup>(1)</sup> (\$/bbl)	5.89	6.97
Operating expense (\$/bbl)	9.06	9.11
Field Netback <sup>(2)</sup> (\$/bbl)	15.82	9.65
Forza Petroleum Netback <sup>(2)</sup> (\$/bbl)	21.26	11.28
Capital additions	7,025	4,708

**Notes:**

- (1) Field production costs represent Forza Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Forza Petroleum. See the "Operating expense" section of this MD&A.
- (2) Field Netback and Forza Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.

### Revenue and cash receipts

Revenue of \$35.7 million was recorded for the three months ended March 31, 2021. Included in revenue is \$30.0 million realised on the sale of 673,400 bbl (WI) of crude oil (average \$44.44/bbl) and \$5.8 million related to the recovery of costs carried on behalf of partners. Revenue from sales increased by \$1.2 million versus the three months ended March 31, 2020 due to a 31% increase in realised average sales price partially offset by a 20% decrease in sales volumes. Overall revenue was \$3.9 million higher than for the three months ended March 31, 2020 due also to an increase in recovery of carried costs.

All sales during the three months ended March 31, 2021 were made via the Kurdistan Oil Export Pipeline.

For oil sales up until and including July 2019, the Group had been receiving payment approximately three months after the month during which oil was delivered. Accordingly, the payment in respect of oil sales invoiced for July 2019 was received in October 2019. However, there were then increasing delays in receiving payment for oil sales made from August 2019 onwards. Payment of August and September 2019 invoices were received in January and February 2020, respectively.

As provided in a communication from the office of the Prime Minister of the government of the KRI in late March 2020, the October 2019 oil sales invoice was settled in April 2020. The Prime Minister's communication also proposed that settlement of past due receivables in respect of oil sales made between November 2019 and February 2020 would be deferred for at least nine months and would not attract interest.

In December 2020, the Prime Minister of the government of the KRI communicated that any amounts due to the government, both current unpaid balances as well as future liabilities arising, could be set-off against the overdue receivables. Further, beginning with January 2021 oil sales, monthly payments are now being made by the KRI Ministry of Natural Resources ("MNR") against the 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.

After the agreed set-off with the MNR and partial payments against the balance in 2021, the balance outstanding for oil sales during the months of November and December 2019 and January and February 2020 has been reduced to \$12 million as at March 31, 2021. The remaining receivable is forecast to be settled in full by June 30, 2021.

The Group has received full payment for all oil sales made from March 2020 through February 2021.

### Field production costs and netbacks

Field production costs during the first quarter of 2021 amounted to \$4.0 million (\$5.89/bbl) in comparison to \$5.9 million (\$6.97/bbl) during the first quarter of 2020, representing a 15% decrease on a per barrel basis. The per barrel decrease was primarily due to a decrease in absolute costs, partially offset by a decrease in production volumes.

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Field Netback of \$15.82/bbl for the three months ended March 31, 2021 has increased by 64% from \$9.65/bbl for the first quarter of 2020. The primary drivers for increased Field Netbacks from the first quarter of 2020 have been higher average sales prices combined with a decrease in per barrel field production costs.

### Cash generated from operating activities

Cash generated from operating activities for the first quarter of 2021 was \$4.2 million compared to \$6.8 million during the same period in 2020. The decrease mainly reflects increased cash payments relating to operating trade and other payables partially offset by improved receipt of payment for crude oil sales.

### Profit / Loss

Profit for the three months ended March 31, 2021 was \$21.2 million compared to a loss of \$249.6 million during the first quarter of 2020. The variance in profit/loss for three months ended March 31, 2021 in comparison to the same period in 2020 is primarily attributable to i) a \$238.2 million impairment recorded during the three months ended March 31, 2020 relating to the Hawler License Area; ii) a \$15.7 million gain recorded during the three months ended March 31, 2021 relating to the deconsolidation of OP Congo SA; iii) a \$3.3 million decrease to the trade and other receivables provision during the three months ended March 31, 2021 compared to a \$4.4 million increase to the provision during the same period in 2020; iv) a \$1.5 million decrease to the materials inventory provision during the three months ended March 31, 2021 compared to a \$4.6 million increase to the provision during the same period in 2020; v) a \$3.2 million increase in net revenue resulting from increased realised sales price and recovery of carried costs, partially offset by lower sales volumes; vi) a \$2.4 million reduction in financing costs following the settlement of a loan facility in July 2020; and vii) a \$1.7 million decrease in general and administration expense primarily as a result of the corporate restructuring which was implemented in Q2 2020. These positive factors have been partially offset by a \$4.2 million non-cash charge resulting from the increase in the fair value of the contingent consideration obligation potentially due on the Hawler License Area compared to a \$1.9 million gain in the comparable three months ending March 31, 2020.

### Capital additions

During the first quarter of 2021, the Group recorded capital additions of \$7.0 million, including \$5.4 million invested in drilling activities in the Banan and Zey Gawra fields. Additional amounts of \$0.5 million and \$0.2 million were also recorded on facilities and directly attributable support costs, respectively, with the remainder represented by a non-cash increase to the decommissioning balance.

### Financial position

The following table contains highlights of the Group's financial position as at the dates indicated below.

(\$ thousands)	March 31, 2021	December 31, 2020
Total cash and cash equivalents	10,152	13,158
Working Capital	(34,914)	(1,846)
Total assets	604,492	605,412
ZOG Interim Credit Facility	5,000	5,000
Total long-term liabilities	42,233	97,877

The cash and cash equivalents balance of \$10.2 million as at March 31, 2021 decreased from \$13.2 million at December 31, 2020. This decrease is due to \$4.2 million in cash generated from operating activities, partially offset by \$7.2 million in cash used in investing activities.

Working capital weakened from negative \$1.8 million at December 31, 2020 to negative \$34.9 million at March 31, 2021 due to the reclassification of the contingent consideration to current liabilities during the first quarter of 2021; partially offset by a \$27.5 million decrease in the remaining trade and other payables balance. The negative working capital balance at March 31, 2021 includes the contingent consideration obligation which amounts to \$60.9 million. The contingent consideration obligation is anticipated not to become payable before 2022.

The total assets balance decreased to \$604.5 million at March 31, 2021 from \$605.4 million at December 31, 2020. This change is primarily due to i) a \$3.0 million decrease in cash and cash equivalents and ii) depletion expense of \$8.3 million. These negative factors were partially offset by i) \$7.0 million in capital additions; ii) a \$1.6 million increase in trade and other receivables; iii) a \$0.9 million increase in inventories; and iv) a \$0.8 million increase in other current assets.

The \$55.6 million decrease in total long-term liabilities from December 31, 2020 is due to the reclassification of the contingent consideration as a current liability within Trade and other payables, partially offset by a \$1.1 million increase to the decommissioning obligation.

The undiscounted balance of principal and accrued interest potentially owed under the contingent consideration obligation to the vendor of the Hawler License Area as at March 31, 2021 was \$76.5 million (December 31, 2020 - \$76.4 million).

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### Business Environment

Following various destabilising geopolitical events impacting the KRI over several years, relative political stability has supported conditions where the Group has been able to continue its activities in the KRI. However, the recent impact of the COVID-19 pandemic and oil price volatility compounds uncertainty associated with unresolved political disputes, and their eventual impact on the Group's operations may be significant and remains unclear. Political and other risk factors which are disclosed in FPL's Annual Information Form could have an adverse effect on Forza Petroleum's performance.

The Group's future revenues and cash flows from operating activities are dependent on the Group's ability to produce, deliver, and receive payment for sales of crude oil. Production rates are subject to fluctuation over time and are difficult to predict.

Uncertainty related to global, social, political, and economic conditions and the resulting changes in global oil supply chains and infrastructure investment contribute to volatility in the price of crude oil. During 2020 the global response to the spread of COVID-19 decreased global economic activity and, correspondingly, the demand for and price of crude oil. There has been some recovery in both global economic activity and the oil price in the first quarter of 2021. Ongoing elevated levels of uncertainty regarding returns on investments in upstream oil and gas exploration and development has impacted the availability and cost of capital resources. There remains an ongoing risk that any degradation of the regional security situation could have a material adverse effect on the operating and financial performance of the Group.

Future oil prices, which directly impact the Group's expected cash inflows, continue to be extremely difficult to forecast reliably. The Group's ability to fund its ongoing operations and its planned, discretionary capital investments is consequently subject to significant uncertainty. See the "Liquidity and Capital Resources" section of this MD&A for further discussion.

The market on which oil produced from the Hawler License Area is sold affects the price realised and, consequently, Forza Petroleum's cash flows. Complexities in local, regional, and international market access may impact the Group's realised oil sales prices and its future ability to sell its produced oil. Since March 2016, all of the Group's crude oil deliveries have been made to international markets through the Kurdistan Oil Export Pipeline. Although management has not experienced, and does not expect, restrictions on its ability to access pipeline capacity, Forza Petroleum is not aware of official allocations of export pipeline capacity and is uncertain as to the extent to which its future production will continue to be able to be sold through this export pipeline. Commercial arrangements currently in place to sell oil produced from the Hawler License Area may not continue to be in effect.

The timing and execution of the Group's capital expenditure program may be affected by the availability of services from third party oil field contractors and the Group's ability to obtain, sustain or renew necessary government licenses and permits on a timely basis to conduct exploration and development activities.

With the exception of the items discussed above, together with risks disclosed in FPL's Annual Information Form dated March 23, 2021, management has not identified trends or events that are expected to have a material adverse effect on the financial performance of Forza Petroleum.

### Operations Review

The following table summarises production and sales data for the three months ended March 31, 2021, December 31, 2020, and March 31, 2020:

	Three months ended		
	March 31, 2021	December 31, 2020	March 31, 2020
Gross (100%) Production (bbl)	1,039,100	1,120,900	1,295,000
Gross (100%) Production per day (bbl/d)	11,500	12,200	14,200
Working Interest production (bbl)	675,400	728,600	842,000
Working Interest production per day (bbl/d)	7,500	7,900	9,300
Working Interest sales (bbl)	673,400	728,900	842,800
Working Interest sales per day (bbl/d)	7,500	7,900	9,300

#### Production and sales

Gross (100%) oil production for the three months ended March 31, 2021 was 1,039,100 bbl representing an average rate of 11,500 bbl/d. The Group's Working Interest share of oil production during this period was 675,400 bbl representing an average rate of 7,500 bbl/d.

The Group recognised revenue on the sale of 673,400 bbl (Working Interest) of crude oil during the three months ended March 31, 2021.

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### Crude oil sale prices

Commencing in March 2016, the Group began selling crude oil to the MNR into the Kurdistan Oil Export Pipeline. The realised sales prices on export sales through this pipeline are referenced to the monthly average Dated Brent crude oil prices, discounted by approximately \$8/bbl for pipeline system tariffs and fees, and adjusted for differences in oil gravity and sulphur from standard Brent specifications.

The following table indicates average Dated Brent crude oil prices and the Group's realised crude oil sales prices for each quarter ended on the dates indicated below:

	2021	2020				2019		
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	Jun 30
Brent average price (\$/bbl)	61.12	44.16	42.95	29.56	50.10	63.08	62.00	68.86
Realised sales price (\$/bbl)	44.44	27.44	26.35	15.78	34.03	47.32	46.05	53.47

### Netbacks

The following table summarises the Field Netback and Forza Petroleum Netback for the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021		Three months ended March 31, 2020	
	(\$ thousands)	(\$/bbl)	(\$ thousands)	(\$/bbl)
Oil sales	29,927	44.44	28,682	34.03
Royalties	(14,679)	(21.80)	(14,020)	(16.64)
Field production costs <sup>(1)</sup>	(3,965)	(5.89)	(5,871)	(6.97)
Current taxes	(628)	(0.93)	(651)	(0.77)
<b>Field Netback<sup>(2)</sup></b>	<b>10,655</b>	<b>15.82</b>	<b>8,140</b>	<b>9.65</b>
Recovery of Carried Costs	5,801	8.61	3,177	3.77
Partner share of production costs	(2,135)	(3.17)	(1,807)	(2.14)
<b>Forza Petroleum Netback<sup>(2)</sup></b>	<b>14,321</b>	<b>21.26</b>	<b>9,510</b>	<b>11.28</b>

Notes:

(1) Field production costs represent the Forza Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Forza Petroleum.

(2) Field Netback and Forza Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.

On a per barrel basis, Field Netback has increased to \$15.82/bbl for the three months ended March 31, 2021 from \$9.65/bbl for the three months ended March 31, 2020. This variance is attributable to an increase in the realised sales prices combined with a decrease in field production costs on a per barrel basis.

### Hawler license operation, appraisal and early production

Production from the Demir Dag, Banan and Zey Gawra fields continued throughout the first quarter of 2021.

A new well targeting the Tertiary reservoir of the Zey Gawra field, Zey Gawra-5, was completed in February 2021 and put into production in March 2021.

The worldwide outbreak of the COVID-19 virus, including within Iraq, has not significantly impacted operations. The Group is taking precautions to protect its employees and contractors but does not at this time expect that the virus outbreak will restrict operations.



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### Capital Additions

The following table summarises the capital additions incurred by activity during the three months ended March 31, 2021 and March 31, 2020:

(\$ thousands)	Three months ended	
	March 31, 2021	March 31, 2020
<b>Middle East</b>		
Drilling	5,386	3,922
Facilities	462	480
Studies, license, and support	169	91
<b>Sub-Total</b>	<b>6,017</b>	<b>4,493</b>
Decommissioning <sup>(1)</sup>	1,008	2
<b>Total Middle East</b>	<b>7,025</b>	<b>4,495</b>
<b>Total West Africa<sup>(2)</sup></b>	<b>-</b>	<b>196</b>
<b>Corporate</b>	<b>-</b>	<b>17</b>
<b>Total capital additions</b>	<b>7,025</b>	<b>4,708</b>

Note:

(1) Non-cash additions. Decommissioning expenditures are forecast to be incurred in 2038.

### Middle East

During the three months ended March 31, 2021, the Group invested \$7.0 million in the Hawler License Area. Drilling costs of \$4.3 million were incurred on the Zey Gawra-5 Tertiary well during the quarter. Additional drilling costs of \$1.0 million were incurred in preparation for drilling future wells. Expenditure of \$0.5 million on facilities and \$0.2 million on studies and support were also incurred in the period, while the remainder is represented by a non-cash increase in the decommissioning balance.

### Cost Pools

Cost Pool for the Hawler License Area, which is available for recovery through future oil sales from the License Area, as at March 31, 2021, is detailed in the table below:

License Area	Location	Gross Cost Pool (\$ million)	Group Working Interest Cost Pool (\$ million)	Costs carried by Forza Petroleum (\$ million)	Costs recovered through cost oil (\$ million)	Group share of recoverable costs available <sup>(1)(2)</sup> (\$ million)
<b>Hawler</b>	Iraq – Kurdistan Region	970.9	478.4	212.5	(201.2)	489.7

Notes:

(1) Cost Pool balances are subject to audit by relevant government entities.

(2) Forza Petroleum share of costs available for future recovery through the sale of cost oil.

### Property, plant and equipment and intangible assets

The capital additions described in the sections above, net of depletion, depreciation and amortisation (“DD&A”) and net impairment reversals, have resulted in the following movements in intangible asset and PP&E balances during the three months ended March 31, 2021:

(\$ thousands)	Exploration and Evaluation Assets	Other Intangible Assets	Total Intangible Assets
<b>As at January 1, 2021</b>	<b>48,883</b>	<b>10</b>	<b>48,893</b>
Capital additions	3	-	3
DD&A	-	(3)	(3)
<b>As at March 31, 2021</b>	<b>48,886</b>	<b>7</b>	<b>48,893</b>

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(\$ thousands)	Oil & Gas assets	Furniture and fixtures	Total PP&E
<b>As at January 1, 2021</b>	<b>506,921</b>	<b>59</b>	<b>506,980</b>
Capital additions	7,022	-	7,022
DD&A	(8,257)	(20)	(8,277)
<b>As at March 31, 2021</b>	<b>505,686</b>	<b>39</b>	<b>505,725</b>

### Financial Results

#### Revenue

The following table summarises Forza Petroleum's revenue for the three months ended March 31, 2021 and 2020. All oil sold during each of the below periods was produced at the Hawler License Area.

(\$ thousands)	Three months ended March 31	
	2021	2020
Oil Sales	29,927	28,682
Recovery of Carried Costs	5,801	3,177
<b>Revenue</b>	<b>35,728</b>	<b>31,859</b>

Revenue of \$35.7 million was recorded for the three months ended March 31, 2021. Included in revenue is \$29.9 million (\$44.44/bbl) realised on the sale of 673,400 bbl (WI) of crude oil and \$5.8 million related to the recovery of costs carried on behalf of partners. Revenue from sales increased by \$1.2 million compared to the same period in the previous year due to a 31% increase in realised sales price partially offset by a 20% decrease in sales volumes. Overall revenue was \$3.9 million higher due to an increase in recovery of carried costs.

Sales volumes are determined by the timing of deliveries into the customer's export pipeline and are not directly correlated with production volumes. As at March 31, 2021, the Group's Working Interest share of oil inventory amounted to 12,800 bbl.

#### Royalties

The following table summarises royalty expense during the three months ended March 31, 2021 and March 31, 2020:

(\$ thousands)	Three months ended March 31	
	2021	2020
<b>Royalties</b>	<b>14,679</b>	<b>14,020</b>

All remittances to governments that are directly attributable to the sale of oil during the reporting period, including the government share of Profit Oil but excluding income taxes, are reported as royalties. Royalties increased by \$0.7 million during the three months ended March 31, 2021 compared to the same period in the previous year. The variances in royalties from period to period are attributable to the same factors as those applicable to revenues from oil sales as discussed above.

#### Operating expense

(\$ thousands)	Three months ended March 31	
	2021	2020
Field production costs <sup>(1)</sup>	3,965	5,871
Partner's share of production costs carried by Forza Petroleum	2,135	1,807
<b>Operating expense</b>	<b>6,100</b>	<b>7,678</b>
Sales <sup>(2)</sup> (bbl)	673,400	842,800
<b>Field production costs<sup>(1)</sup> (\$/bbl)</b>	<b>5.89</b>	<b>6.97</b>
<b>Operating expense (\$/bbl)</b>	<b>9.06</b>	<b>9.11</b>

Notes:

- (1) Field production costs represent the Forza Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Forza Petroleum.
- (2) Forza Petroleum's Working Interest share.



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Operating expense of \$6.1 million in the three months ended March 31, 2021 decreased by \$1.6 million compared to the same period in the previous year. The decrease in operating expenses is primarily attributable to decreased security costs and cost savings achieved through the Banan-4 workover. Operating costs per barrel decreased during the three months ended March 31, 2021 compared to the three months ended March 31, 2020 due to a 21% decrease in costs partially offset by a 20% decrease in sales volumes.

The following table indicates the impact of the variances in operating expense between the fourth quarter of 2020 and first quarter of 2021:

(\$ thousands)	(\$000)	(\$/bbl)
<b>Operating expense – three months ended December 31, 2020</b>	<b>6,535</b>	<b>8.97</b>
Contribution of the following to variance:		
Personnel and camp costs	(319)	(0.47)
Well maintenance	23	0.03
Facilities lease and maintenance, diesel and operation	(59)	(0.10)
Security	(80)	(0.12)
Decrease in production	-	0.75
<b>Operating expense – three months ended March 31, 2021</b>	<b>6,100</b>	<b>9.06</b>

### General and administration

(\$ thousands)	Three months ended March 31	
	2021	2020
<b>General and administration</b>	<b>1,081</b>	<b>2,738</b>

General and administration expenses of \$1.1 million were recorded for the three months ended March 31, 2021 versus \$2.7 million in the comparable period during 2020. The decrease between periods is primarily due to the corporate restructuring which was implemented in Q2 2020, resulting in reduced personnel costs for the remainder of 2020 and into 2021.

### Impairment

(\$ thousands)	Three months ended March 31	
	2021	2020
Impairment expense – property, plant and equipment	-	238,245
<b>Total impairment</b>	<b>-</b>	<b>238,245</b>

During the first quarter of 2020 the Group recorded an impairment charge of \$238.2 million related to the Hawler License Area due to a sharp fall in forecast oil prices at that time. That impairment was partially reversed in the fourth quarter of 2020. The carrying value of this oil and gas asset at March 31, 2021 is \$505.7 million.

### Depletion, depreciation and amortisation

The following table summarises the component parts of depletion, depreciation and amortisation for the three and twelve months ended March 31, 2021 and 2020:

(\$ thousands)	Three months ended March 31	
	2021	2020
Intangible assets: Amortisation	8,234	7,579
PP&E assets: Depreciation	19	19
Depletion	3	3
<b>Total DD&amp;A</b>	<b>8,256</b>	<b>7,579</b>

Depletion is calculated on a unit of production basis, which is the ratio of oil production volume during the period to the estimated quantities of proved plus probable oil reserves at the beginning of the period.

The increased depletion charges for the three months ended March 31, 2021 are primarily due to a higher per barrel depletion charge, primarily due to a reduction in proved plus probable oil reserve estimates and by a higher depletable base following a partial reversal in the fourth quarter of 2020 of an earlier impairment charge. The reserve estimates are detailed in the independent evaluator's report referenced in the Group's Material Change Report dated March 10, 2021.

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### Other income / (expense)

The following table summarises the components of other income / (expense) for the three months ended March 31, 2021 compared to the same period in 2020:

(\$ thousands)	Three months ended March 31	
	2021	2020
Decrease / (increase) of provision against trade and other receivables	3,303	(4,367)
Reduction / (Increase) in materials inventory provision	1,490	(4,603)
Restructuring charges	-	(772)
Other	-	56
<b>Other income / (expense)</b>	<b>4,793</b>	<b>(9,686)</b>

Other income for the three months ended March 31, 2021 relates to a \$3.3 million reduction of the provision against trade and other receivables and a \$1.5 million gain resulting from a reduction in the materials inventory provision. The reduction of the provision against trade and other receivables is in response to the earlier than forecasted collection of receivables relating to November 2019 through February 2020. The reduction in the materials inventory provision is due to a higher projected use of existing materials inventory than was projected in the prior period.

### Finance expense

(\$ thousands)	Three months ended March 31	
	2021	2020
Accretion of decommissioning liability	118	118
Interest on contingent consideration	103	331
Interest on loan facility	-	1,985
Accretion of deferred financing costs on loan facility	-	191
Other	-	1
<b>Finance expense</b>	<b>221</b>	<b>2,626</b>

Finance expense for the three months ended March 31, 2021 relates to interest on the contingent consideration and accretion of the decommissioning liability. For the three months ended March 31, 2020 additional costs related to accrued interest and accretion of deferred financing costs associated with a loan facility, which was settled in full in July 2020.

The change in fair value of contingent consideration and the interest on contingent consideration is discussed in the "Liquidity and Capital Resources" section of this MD&A.

### Income tax expense

The following table summarises the component parts of income tax expense for the three months ended March 31, 2021 and March 31, 2020.

(\$ thousands)	Three months ended March 31	
	2021	2020
Current income tax expense	725	738
Deferred tax (benefit) / expense	10	3
<b>Total income tax expense</b>	<b>735</b>	<b>741</b>

The current income tax expense, which varies proportionately with oil sales revenues, is primarily composed of amounts deemed to be collected by the KRG through its allocation of Profit Oil under the Hawler PSC.

## Liquidity and Capital Resources

During the three months to March 31, 2021, the Group met its day to day working capital requirements and funded its capital and operating expenditures from cash reserves and receipt of its share of oil sales revenues from the Hawler License Area.

### ZOG Credit Facility

On August 26, 2020, the Group entered into an interest free \$10 million credit facility agreement with ZOG (the "ZOG Credit Facility") of which \$5 million has been drawn as at both March 31, 2021 and December 31, 2020. There is no commitment fee and, under the original agreement, any amounts drawn under this facility are due for repayment at the earlier of (a) the third business day after the Company has received payments from the MNR representing 50% of the total amount originally owing for oil sales during the period from November 2019 to February 2020, or (b) July 31, 2022. During the three months ended March 31, 2021 the ZOG Credit Facility has matured. The Group has received a waiver from ZOG confirming that no amounts need to be repaid prior to June 30, 2021.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Contingent consideration

During 2011, the Group acquired OP Hawler Kurdistan Limited under the terms of a sale and purchase agreement (the "Purchase Agreement").

The Purchase Agreement establishes that additional consideration in the remaining amount of \$66 million plus interest at LIBOR plus 0.25% per annum becomes payable if an additional Hawler License Area discovery, beyond the initially declared Demir Dag commercial discovery, is declared to be commercial. A financial liability was recognised for the contingent consideration as part of the business combination accounting in 2010, in accordance with IFRS.

For the specific purpose of estimating the fair value of the contingent consideration obligation in accordance with IFRS, management has applied the expected present value technique as they believe that this is the manner in which a market participant would estimate a fair value. Management has accordingly set out possible future cash outflow scenarios and has aggregated the probability-weighted present value of each cash outflow forecast scenario, discounted at a rate of 10% per annum (2020 – 10% per annum).

The balance of unpaid principal and accrued interest potentially owed under the contingent consideration obligation to the vendor of the Hawler License Area as at March 31, 2021 was \$76.5 million. During the three months ended March 31, 2021, contingent interest accrued at a rate of 0.58% per annum (year ended December 31, 2020 – 1.02%).

Management has exercised significant judgment and made significant estimates in order to identify the cash outflow forecast scenarios and possible future circumstances that may cause the contingent consideration to become payable, or not, in its entirety at various future dates or on a scheduled basis. The scenario outcomes range from Nil cash outflow in the event that the conditions causing the contingent consideration to become payable do not materialise, to a maximum of undiscounted principal and interest in the amount of \$99.5 million if the liability were ultimately to arise and payments were scheduled over time through 2026.

After applying the present value technique, the liability is thus presented at management's estimate of fair value which, as at March 31, 2021, amounted to \$60.9 million (December 31, 2020 - \$56.6 million).

The fair value of the liability was established using a combination of observable inputs other than quoted prices and unobservable inputs derived from management's internal analysis and judgment. As such it is classified as level 3 in the fair value hierarchy.

Management expects that, should a cash outflow related to the contingent consideration liability arise, as at March 31, 2021 it was more likely than not that this cash outflow would arise prior to March 31, 2022. Consequently, the liability has been classified as a current liability.

### Liquidity outlook

The Group expects cash on hand as of March 31, 2021 and cash receipts from net revenues and export sales exclusively through the Kurdistan Oil Export Pipeline will allow it to fund its forecasted capital expenditure and operating and administrative costs through the end of March 2022, and to settle all payables currently due to suppliers. The contingent consideration is not anticipated to become payable before 2022.

See the "New Accounting Pronouncements, Policies, and Critical Estimates – Going Concern" section of this MD&A for discussion regarding uncertainties and risks associated with the Group's ability to continue as a going concern.

The following table summarises the components of Forza Petroleum's consolidated cash flows for the periods indicated:

(\$ thousands)	Three months ended March 31	
	2021	2020
Net cash generated from operating activities	4,207	6,805
Net cash used in investing activities	(7,213)	(8,534)
Net cash used in financing activities	-	(4,025)
<b>Total change in cash</b>	<b>(3,006)</b>	<b>(5,754)</b>
Cash and cash equivalents at beginning of the period	13,158	8,912
<b>Cash and cash equivalents at end of the period</b>	<b>10,152</b>	<b>3,158</b>

The \$3.0 million decrease in cash during the three months ended March 31, 2021 resulted from the use of \$7.2 million in cash to invest in drilling and facilities costs in the Hawler License Area, partially offset by \$4.2 million in cash generated from operating activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Risks and uncertainties

The Group's ability to realise cash inflows from crude oil sales is subject to significant uncertainty related to the future performance and productivity of individual wells and production facilities, future crude oil prices, and customer credit risk. In particular credit risk is impacted by the uncertainty associated with the COVID-19 pandemic, and political tensions between the governments of Iraq and the Kurdistan Region of Iraq. The Group's ability to secure external financing, if and when required, is also subject to significant uncertainty and is dependent on the Group's performance and on market conditions. Furthermore, the execution of capital investment plans requires significant capital expenditures. Long lead times between initiation of commitments to capital projects and completion thereof are common in the industry. During these lead times, Forza Petroleum expects to incur significant costs at a level which may be difficult to predict. Prevailing market conditions, together with Forza Petroleum's business performance, will impact the Group's ability to realise required cash flows from operating activities and to arrange further financing as needed. While the Group retains the flexibility to defer certain budgeted expenditures and to adjust the timing of its expenditures on the development of the Hawler License Area, slowing the rate of development expenditures related to the Hawler License Area would be likely to impede the Group's ability to achieve expected production and sales levels. Refer to the "Critical estimates" section of this MD&A for additional discussion regarding management's going concern assumption which contemplates that the Group will realise its assets and settle its liabilities and commitments during the 15 month period ending June 30, 2022.

### Economic Sensitivities

The following table shows the estimated effect that changes to crude oil prices, Gross (100%) oil sale volumes and operating costs would have had on the Group's profit for the three months ended March 31, 2021, had these changes occurred on January 1, 2021. These calculations are based on business conditions, production and sales volumes existing during the three months ended March 31, 2021. The 1,000 bbl/d increase assumes the increase is to Gross (100%) sale volumes and the Group's entitlement is calculated according to the provisions of the Hawler PSC.

	Change	Profit impact (\$000s)	Profit impact (\$ per basic share)
Change in average realised price	\$10.00/bbl	4,594	0.01
Change in crude oil sales volumes	1,000 bbl/d	1,641	0.00
Change in operating expenses	\$1.00/bbl	673	0.00

The possible future cash flows relating to the contingent consideration have been estimated based on the terms set out in the agreement with the counterparty and discounted using an observed market rate for similar obligations. As at March 31, 2021, management has assumed interest at LIBOR plus 0.25% per annum and a 10% discount rate. The following table shows the estimated effect that a 2% change in the interest and discount rates applicable to the contingent consideration balance would have had on the Group's profit for the three months ended March 31, 2021.

	Change	Profit impact (\$000s)	Profit impact (\$ per basic share)
Change in interest rate	2%	1,359	0.00
Change in discount rate	2%	2,277	0.00

The impact of the above changes may be compounded or offset by changes to other business conditions. In addition, the tables do not reflect any inter-relationships between the above factors. Changes in foreign exchange rates have not been considered in this analysis as they do not have a significant impact on the Group's operations.

### Non-IFRS Measures

#### Field Netback

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 each of Royalties, the Group's Working Interest share of operating expense and 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 PSC 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. See the "Operations Review" section of this MD&A for a reconciliation of Field Netback.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forza Petroleum Netback

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. See the "Operations Review" section of this MD&A for a reconciliation of Forza Petroleum Netback.

### Outstanding Share Data

At the date of this MD&A, 578,197,218 Common Shares are issued and outstanding.

Upon vesting, FPL LTIP share awards issued in October 2020 will result in the issuance of up to an additional 16,716,008 Common Shares in 2021 and 2022.

In 2019 and then in March 2020, respectively, the Group issued warrants to acquire firstly 6,132,804 and then 33,149,000 Common Shares of the Company. The exercise prices of the two tranches of warrants are, respectively, \$0.2094 and \$0.1633 per Common Share. The warrants expire on November 13, 2021 and March 10, 2023, respectively, and comprise a total of 39,281,804 warrants outstanding and exercisable as at the date of this MD&A.

At the date of this MD&A, other than the warrants and the unvested LTIP share awards described above, there are no securities convertible into or exercisable or exchangeable for voting shares.

The Company has not paid or declared any dividends during the three months ended March 31, 2021.

There were no repurchases of FPL's equity securities by the Company during the three months ended March 31, 2021.

### Commitments and Contractual Obligations

The table below sets forth information relating to Forza Petroleum's commitments and contractual obligations as at March 31, 2021.

(\$ thousands)	Within One Year	From 1 to 5 Years	More than 5 Years	Total
Operating leases <sup>(1)</sup>	170	-	-	170
Other obligations <sup>(2)</sup>	2,479	9,915	19,834	32,228
<b>Total</b>	<b>2,649</b>	<b>9,915</b>	<b>19,834</b>	<b>32,398</b>

(1) Operating leases primarily relate to office rent.

(2) Consists principally of obligations related to PSC commitments and capital expenditure commitments. The main purpose of these commitments is to develop the Group's oil and gas assets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Summary of Quarterly Results

The following table sets forth a summary of Forza Petroleum's results for the indicated quarterly periods.

(\$ thousands, unless otherwise stated)	2019			2020				2021
	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31
Revenue, net of royalties	22,327	20,010	22,890	17,893	2,370	12,983	14,104	21,049
Operating expense	(6,938)	(7,173)	(7,563)	(7,678)	(3,532)	(7,061)	(6,535)	(6,100)
Depletion	(4,990)	(5,129)	(7,017)	(7,579)	(1,636)	(4,666)	(8,997)	(8,234)
G&A	(3,361)	(2,801)	(3,742)	(2,738)	(2,185)	(3,368)	(1,200)	(1,081)
Profit / (Loss)	2,313	18,278	(81,334)	(249,590)	(3,854)	30,139	114,562	21,165
Earnings / (Loss) per basic and diluted share (\$/share)	0.00	0.03	(0.15)	(0.45)	(0.01)	0.05	0.20	0.04
Cash generated from operating activities	11,356	9,712	(1,558)	6,805	3,079	3,622	8,601	4,207
Gross Production (bbl)	1,029,500	1,072,500	1,201,000	1,295,500	367,600	1,080,000	1,120,900	1,039,100
WI Production (bbl)	669,200	697,200	780,700	842,000	238,900	702,000	728,600	675,400
Gross Sales (bbl)	1,032,800	1,074,800	1,196,600	1,296,700	371,400	1,075,300	1,121,400	1,036,000
WI Sales (bbl)	671,300	698,600	777,800	842,800	241,400	698,900	728,900	673,400
Field production costs <sup>(1)</sup>	(5,306)	(5,484)	(5,784)	(5,871)	(2,701)	(4,590)	(4,248)	(3,965)
Field Netback <sup>(2)</sup>	12,231	10,233	12,486	8,140	(839)	4,406	5,340	10,655
Forza Petroleum Netback <sup>(2)</sup>	14,575	12,108	14,784	9,510	(1,248)	5,504	6,930	14,321
Brent price (\$/bbl)	68.86	62.00	63.08	50.10	29.56	42.95	44.16	61.12
Sales price (\$/bbl)	53.47	46.05	47.32	34.03	15.78	26.35	27.44	44.44
Royalties (\$/bbl)	(26.14)	(22.51)	(23.13)	(16.64)	(7.71)	(12.88)	(12.35)	(21.80)
Field production costs <sup>(1)</sup> (\$/bbl)	(7.90)	(7.85)	(7.44)	(6.97)	(11.19)	(6.57)	(5.83)	(5.89)
Current taxes (\$/bbl)	(1.21)	(1.04)	(0.70)	(0.77)	(0.36)	(0.60)	(0.88)	(0.93)
Field Netback <sup>(2)</sup> (\$/bbl)	18.22	14.65	16.05	9.65	(3.48)	6.30	7.32	15.82
Forza Petroleum Netback <sup>(2)</sup> (\$/bbl)	21.71	17.33	19.00	11.28	(5.17)	7.87	9.50	21.26
Capital additions	10,639	11,899	13,390	4,708	5,069	15,746	10,934	7,025

Notes:

(1) Field production costs represent the Forza Petroleum's Working Interest share of gross production costs and exclude partner share of production costs which are being carried by Forza Petroleum. See the "Operating expense" section of this MD&A.

(2) Field Netback and Forza Petroleum Netback are non-IFRS measures. See the "Non-IFRS Measures" section of this MD&A.

Variations in revenue are attributable to changes in realised sales prices which have been broadly referenced to Brent crude oil prices and sales volumes which have fluctuated due to the variations in production from the Hawler License Area. Production from the Banan field was shut-in for three months starting in early April 2020 in order to optimise economics.

Variations in Field Netback and Forza Petroleum Netback reflect changes in revenue discussed above and the impact of changes in field production costs. Field production costs increased during 2019 as wells from the Zey Gawra and Banan fields were brought onto production. Operating expenses and capital expenditures for the year ended 2020 and the three months ended March 31, 2021 include increased costs carried by the Company partially offset by cost savings following the Banan-4 workover and decreased security costs. Included in capital additions for the three months ended September 30, 2020 are non-cash additions of \$13.6 million related to the increased cost estimates used in the decommissioning obligation calculation resulting from PSC amendments.

## Transactions with Related Parties

On August 26, 2020, the Group entered into an interest free \$10 million credit facility agreement with ZOG of which \$5 million has been drawn as at both March 31, 2021 and December 31, 2020. There is no commitment fee and, under the original agreement, any amounts drawn under this facility are due for repayment at the earlier of (a) the third business day after the Company has received payments from the MNR representing 50% of the total amount originally owing for oil sales during the period from November 2019 to February 2020, or (b) July 31, 2022. During the three months ended March 31, 2021 the ZOG Credit Facility has matured. The Group has received a waiver from ZOG confirming that no amounts need to be repaid prior to June 30, 2021.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management believes the terms and conditions of the above facilities to be materially comparable to or better than terms applicable to similar market transactions.

In each of January and July 2020, and in January 2021 the directors of FPL were awarded \$0.2 million in cash as remuneration for services provided in the previous two quarters. In April 2021, the directors of FPL were awarded \$0.1 million in cash as remuneration for services provided during the three months ended March 31, 2021.

### New Accounting Pronouncements, Policies, and Critical Estimates

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#### New Pronouncements

There were no new accounting standards adopted by the Group during the three months ended March 31, 2021.

#### Critical estimates

In the process of applying the Group's accounting policies management makes estimates, judgments and assumptions concerning the future. These accounting estimates, judgments and assumptions may differ from actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Such estimates, judgments and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

#### Going Concern

##### Financial statement disclosure

The Financial Statements have been prepared on a going concern basis which contemplates the realisation of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. During the three months ended March 31, 2021, the Group met its day to day working capital requirements and funded its capital and operating expenditures through cash reserves and receipt of its share of oil sales revenues from the Hawler License Area.

The Group's ability to continue as a going concern is primarily dependent on the Group's ability to produce, sell and receive payment for crude oil from the Hawler License Area.

For oil sales up until and including July 2019, the Group had been receiving payment approximately 3 months after the month during which oil was delivered. Accordingly, the payment in respect of oil sales invoiced for July 2019 was received in October 2019. However, there were then increasing delays in receiving payment for oil sales made from August 2019 onwards. Payment of August and September 2019 invoices were received in January and February 2020, respectively.

As provided in a communication from the office of the Prime Minister of the government of the KRI in late March 2020, the October 2019 oil sales invoice was settled in April 2020. The Prime Minister's communication also proposed that settlement of past due receivables in respect of oil sales made between November 2019 and February 2020 would be deferred for at least nine months and would not attract interest.

In December 2020, the Prime Minister of the government of the KRI communicated that any amounts due to the government, both current unpaid balances as well as future liabilities arising, could be set-off against the overdue receivables. Further, beginning with January 2021 oil sales, monthly payments are being made by the MNR against past due receivables. The monthly 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.

After the agreed set-off with the MNR and partial payments against the balance in 2021, the balance outstanding for oil sales during the months of November and December 2019 and January and February 2020 had been reduced to \$12 million at March 31, 2021. This remaining receivable is forecast to be settled in full by June 30, 2021.

The Group has received full payment for all oil sales made from March 2020 through February 2021.

The fact that current liabilities exceed current assets as at March 31, 2021 constitutes a prima facie risk to going concern as at that date.

The Directors have carefully considered the forecast cash flows for the 15 months following March 31, 2021, and they expect that cash resources will be sufficient to fund the Group's capital and operating expenditures and to meet forecast obligations as they fall due within that period. The Hawler drilling and facilities work program for the next 15 months will be tailored to the funding available for capital expenditure, with commitments and activity being contingent upon continued levels of revenue and collection of outstanding receivables.

In preparing forecasts supporting the going concern assumption, management has applied the following significant judgments and assumptions:

- i) Hawler License Area oil sales are based on Brent crude oil prices averaging \$64.51 per barrel during the 15-month period ending June 30, 2022. If the forecast were to be prepared using an average of \$50.00/bbl the going concern conclusion would continue to be supported.
- ii) No cash outflows arising from the contingent consideration liability prior to June 30, 2022.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

If the assumptions listed above, which are largely outside of the control of the directors, are not borne out, then they represent material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern and thus to realise its assets and discharge its liabilities in the normal course of business. Should the Group be unable to meet its obligations as they fall due and to fund its committed capital investments and operating expenditures, the preparation of the Financial Statements on a going concern basis may not be appropriate. The Financial Statements do not reflect adjustments, which may be material, that would be necessary if the going concern assumption were not appropriate.

### *Carrying value of intangible exploration and evaluation assets*

The carrying amounts for E&E assets represent costs incurred on exploration projects. For the purpose of impairment assessments and testing, E&E assets are aggregated in CGUs. Determination of what constitutes a CGU is subject to management judgments and the circumstances.

Management has made significant estimates and judgments related to the determination of whether impairment indicators are present in respect of the E&E asset. These critical estimates and judgments are discussed in detail in note 5 of the Financial Statements.

### *Carrying value of Oil and Gas assets*

For the purpose of impairment assessments and testing in accordance with IAS 36, oil and gas assets are aggregated in CGUs. Determination of what constitutes a CGU is subject to management judgments and the circumstances. For the purposes of impairment assessments and testing of oil and gas assets, management has determined that the Hawler License Area, excluding the Ain al Safra sub-contract area, which is a separate E&E asset, constitutes the Group's single CGU which contains property, plant and equipment.

In conducting impairment assessments and tests, management considers internal and external sources of information regarding the manner in which assets are expected to be used, and indications of economic performance of the assets. Estimates include but are not limited to the determination of expected future cash flows from the asset being tested and the discount rate used to determine the value of the cash flows at the measurement date. Reductions in oil price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse economic conditions can result in estimated carrying amounts exceeding the recoverable amounts of the Group's oil and gas assets. An impairment loss is recognised if and when the carrying amount exceeds the recoverable amount. An impairment reversal is recognised if and when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

### *Contingent Consideration*

Refer to the "Liquidity and Capital Resources" section of this MD&A.

## Financial Controls

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### **Disclosure Controls and Procedures**

Disclosure Controls and Procedures ("DC&P") have been designed under the supervision of the Chief Executive Officer ("CEO") and the Head of Finance (acting as CFO), with the participation of other management, to provide reasonable assurance that information required to be disclosed is recorded, processed, summarised and reported within the time periods specified in applicable securities legislation, and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and Head of Finance (acting as CFO), as appropriate to allow timely decisions regarding required disclosure.

### **Internal Controls over Financial Reporting**

Internal Controls over Financial Reporting ("ICFR") have been designed under the supervision of the CEO and the Head of Finance (acting as CFO), with the participation of other management, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements in accordance with IFRS. ICFR can only provide reasonable assurance and may not prevent or detect misstatements. Projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in Forza Petroleum's ICFR during the three months ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, Forza Petroleum's ICFR.

## Forward-Looking Information

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Certain statements in this MD&A constitute "forward-looking information" within the meaning of applicable Canadian securities legislation, including statements related to the nature, timing and effect of Forza Petroleum's forecast capital expenditure, financing and capital activities, expectations that cash on hand as of March 31, 2021 and cash receipts from net revenues from export sales exclusively through the Kurdistan Oil Export Pipeline will allow the Group to fund its forecasted

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

capital expenditures and operating and administrative costs through the end of March 2022 and to settle obligations currently due to suppliers, business and acquisition strategy and goals, opportunities, drilling and well workover plans, development plans and schedules and chance of success, results of exploration activities, declarations of commercial discovery, contingent liabilities and government approvals, the ability to consistently access the export pipeline or other exterior facilities to sell oil production, sales channels for future sales, future drilling of new wells and the reservoirs to be targeted, costs and drilling times for new wells, ultimate recoverability of current and long-term assets, estimates of oil reserves and resources, future royalties and tax levels, access to and sources of future financing and liquidity, future debt levels, availability of committed credit facilities, possible commerciality of our projects, expected operating capacity, expected operating costs, estimates on a per share basis, future foreign currency exchange rates, the issuance of shares as a result of the vesting of LTIP awards and exercise of outstanding warrants, estimates for the fair value of the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, 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, the expected timing for settlement of liabilities including the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, changes in any of the foregoing, and statements that contain words such as "may", "will", "would", "could", "should", "anticipate", "believe", "intend", "expect", "plan", "estimate", "budget", "outlook", "propose", "potentially", "project", "forecast" or the negative of such expressions and statements relating to matters that are not historical fact. Although Forza Petroleum believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. In making certain statements in this MD&A, Forza Petroleum has made assumptions with respect to the following: the general continuance of the current or, where applicable, assumed industry conditions, the continuation of assumed tax, royalties and regulatory regimes, forecasts of capital expenditures and the sources of financing thereof, timing and results of exploration activities, access to local and international markets for future crude oil production and future crude oil prices, Forza Petroleum's ability to obtain and retain qualified staff, contractors and personnel and equipment in a timely and cost-efficient manner, the political situation and stability in the jurisdiction in which Forza Petroleum has its license, the ability to renew its license on satisfactory terms, Forza Petroleum's future production levels, the applicability of technologies for the recovery and production of Forza Petroleum's oil reserves and resources, the amount, nature, timing and effects of capital expenditures, geological and engineering estimates in respect of Forza Petroleum's reserves and resources, the geology of the areas in which Forza Petroleum is conducting exploration and development activities, operating and other costs, the extent of Forza Petroleum's liabilities, and business strategies and plans of management and Forza Petroleum's business partners. For more information about these assumptions and risks facing the Group, refer to FPL's Annual Information Form dated March 23, 2021, available at [www.sedar.com](http://www.sedar.com) and the Group's website at [www.forzapetroleum.com](http://www.forzapetroleum.com).

Any forward-looking information concerning prospective exploration, results of operations, financial position, production, expectations of capital expenditures, cash flows and future cash flows or other information described above that is based upon assumptions about future results, economic conditions and courses of action are presented for the purpose of providing readers with a more complete perspective on Forza Petroleum's present and planned future operations and such information may not be appropriate for other purposes and actual results may differ materially from those anticipated in such forward-looking information. In addition, included herein is information that may be considered financial outlook and/or future-oriented financial information. Its purpose is to indicate the potential results of Forza Petroleum's intentions and may not be appropriate for other purposes.

Readers are strongly cautioned that the above list of factors affecting forward-looking information is not exhaustive. Although FPL believes that the expectations conveyed by the forward-looking information are reasonable based on information available to it on the date such forward-looking information was made, no assurances can be given as to future results, levels of activity and achievements. Readers should not place undue importance or reliance on the forward-looking information and should not rely on the forward-looking information as of any date other than the date hereof. Further, statements including forward-looking information 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 as a result of new information or otherwise. If FPL 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 MD&A is expressly qualified by this cautionary statement.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Glossary and Abbreviations

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The following abbreviations and definitions are used in this MD&A:

### **AGC**

Agence de Gestion et de Coopération, an inter-governmental agency established in 1993 to manage and administer petroleum and fishing activities in the maritime zone between Senegal and Guinea Bissau

### **bbl**

Barrel(s) of oil

### **bbl/d**

Barrel(s) of oil per day

### **Carried Cost**

Costs related to the Group's funding another party's share of costs, by agreement, in excess of the Group's Working Interest. Carried Costs are typically recovered through Cost Oil

### **Common Shares**

Common shares of the Company

### **Company or FPL**

Forza Petroleum Limited

### **Contractor**

An oil company operating in a country under a PSC on behalf of the host government, for which it receives either a share of production or a fee

### **Cost Oil**

The portion of oil sold used to reimburse the Contractor for exploration, development, and operating costs

### **Cost Pool**

Costs incurred to explore and/or develop a License Area to be recovered as Cost Oil through future oil sales

### **G&A**

General and administration

### **Gross**

In respect of reserves, resources, future net revenue, production, sales, area, capital expenditures or operating expenses, the total reserves, resources, future net revenue, production, sales, area, capital expenditures or operating expenses, as applicable, attributable to either (i) 100% of the License Area or field; or (ii) the Group's Working Interest in the License Area or field, as indicated, prior to the deductions specified in the applicable PSC, REC or fiscal regime for each License Area.

### **IAS**

International Accounting Standards

### **IFRS**

International Financial Reporting Standards

### **KRG**

Kurdistan Regional Government of Iraq

### **License Area**

Area of specified size, which is licensed to a company by a government for the production of oil and gas

### **Operator**

A company that organises the exploration and productions programs in a License Area on behalf of all the interest holdings in the license

### **PP&E**

Property, plant and equipment

### **Profit Oil**

Production remaining after contractual Royalties and Cost Oil, which is split between the government and the Contractors according to the prevailing contract terms in the PSC

### **Production Sharing Contract (PSC)**

A contractual agreement between a Contractor and a host government, whereby the Contractor bears certain defined exploration costs, risks, and development and production costs in return for a stipulated share of the production resulting from this effort

### **Reserves**

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology;
- specified economic conditions, which are generally accepted as being reasonable

### **Royalty**

All remittances to governments who are party to the applicable PSCs that are directly attributable to the sale of oil and natural gas products during the reporting period including the government share of Profit Oil described above, except for income taxes

### **Working Interest or WI**

The Group's interest in an applicable License Area, assuming the exercise of back-in rights or options

### **ZOG**

Zeg Oil and Gas Limited