FORZA PETROLEUM

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
MARCH 31, 2021 AND 2020

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In accordance with subsection 4.3(3) of National Instrument 51-102 – *Continuous Disclosure Obligations*, Forza Petroleum Limited discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2021 and 2020.

Consolidated Statements of Profit / (Loss) and Comprehensive Income / (Loss)

		Three months ended March 31	
$000s	**Note**	**2021**	**2020**
Revenue		35,728	31,859
Royalties		(14,679)	(14,020)
Net revenue		**21,049**	**17,839**
Operating expense		(6,100)	(7,678)
Depreciation, depletion and amortisation	**5,6**	(8,256)	(7,601)
Impairment expense	**6**	-	(238,245)
General and administration expense		(1,081)	(2,738)
Other income / (expense)	**22**	4,793	(9,686)
Gain on deconsolidation of subsidiary	**11b**	15,725	
Change in fair value of contingent consideration	**26**	(4,194)	1,873
Profit / (Loss) from operations		**21,936**	**(246,236)**
Finance costs	**20**	(221)	(2,626)
Foreign exchange gain		185	13
Profit / (Loss) before income tax		**21,900**	**(248,849)**
Income tax expense	**19**	(735)	(741)
Profit / (Loss) for the period		**21,165**	**(249,590)**
Comprehensive Income / (Loss) for the period		**21,165**	**(249,590)**
Earnings / (Loss) per share (basic and diluted) - $	**16**	**0.04**	**(0.45)**

Consolidated Statements of Financial Position

$000s	Note	March 31 2021	December 31 2020
Non-current assets			
Intangible assets	**5**	48,893	48,893
Property, plant and equipment	**6**	505,725	506,980
Deferred tax assets		219	229
		554,837	**556,102**
Current assets			
Inventories	**7**	9,722	8,786
Trade and other receivables	**8**	27,611	26,026
Other current assets	**9**	2,170	1,340
Cash and cash equivalents	**10**	10,152	13,158
		49,655	**49,310**
Total assets		**604,492**	**605,412**
Current liabilities			
Trade and other payables	**11**	79,569	46,156
ZOG credit facility	**13**	5,000	5,000
		84,569	**51,156**
Non-current liabilities			
Trade and other payables	**11**	-	56,632
Retirement benefit obligation		1,622	1,760
Decommissioning obligation	**14**	40,611	39,485
		42,233	**97,877**
Total liabilities		**126,802**	**149,033**
Equity			
Share capital	**15**	1,362,633	1,362,633
Reserves	**17**	23,328	23,182
Accumulated remeasurement of defined benefit obligation, net of income tax		(5,637)	(5,637)
Accumulated deficit		(902,634)	(923,799)
Total equity		**477,690**	**456,379**
Total equity and liabilities		**604,492**	**605,412**

The consolidated financial statements were approved by the Board of Directors and authorised for issue on May 6, 2021.

On behalf of the Board of Directors:

signed
Sami Zouari
Director

signed
Peter Newman
Director

Consolidated Statements of Changes in Equity

$000s	Note	Share capital	Reserves	Accumulated deficit	Accumulated remeasurement of defined benefit obligation	Total equity
Balance at January 1, 2020		**1,361,043**	**18,594**	**(815,056)**	**(5,529)**	**559,052**
Loss for the period		-	-	(249,590)	-	(249,590)
Issue of warrants	**17**	-	2,404	-	-	2,404
Share based payment expense	**17**	-	874	-	-	874
Balance at March 31, 2020		**1,361,043**	**21,872**	**(1,064,646)**	**(5,529)**	**312,740**
Profit for the period		-	-	140,847	-	140,847
Share based payment expense	**17**	-	2,900	-	-	2,900
Shares issued for LTIP	**15, 17**	1,590	(1,590)	-	-	-
Loss on defined benefit obligation, net of tax		-	-	-	(108)	(108)
Balance at December 31, 2020		**1,362,633**	**23,182**	**(923,799)**	**(5,637)**	**456,379**
Profit for the period		-	-	21,165	-	21,165
Share based payment expense	**17**	-	146	-	-	146
Balance at March 31, 2021		**1,362,633**	**23,328**	**(902,634)**	**(5,637)**	**477,690**

Consolidated Statements of Cash Flows

		Three months ended March 31	
$000s	**Note**	**2021**	**2020**
Operating activities			
Profit / (Loss) for the period		21,165	(249,590)
Items not involving cash	**18**	(4,491)	256,506
Change in retirement benefit obligation		(218)	(365)
Changes in non-cash working capital	**18**	(12,249)	254
Net cash generated from operating activities		**4,207**	**6,805**
Investing activities			
Acquisition of intangible assets		(3)	(659)
Acquisition of property, plant and equipment		(7,210)	(7,875)
Net cash used in investing activities		**(7,213)**	**(8,534)**
Financing activities			
Payment of interest on borrowings	**12**	-	(4,025)
Net cash used in financing activities		**-**	**(4,025)**
Net (decrease) / increase in cash and cash equivalents		**(3,006)**	**(5,754)**
Cash and cash equivalents at beginning of the period		13,158	8,912
Cash and cash equivalents at end of the period		**10,152**	**3,158**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Forza Petroleum Limited (the "Company" or "FPL") 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 address of the registered office of FPL is 3400 First Canadian Centre 350, 7th Avenue Southwest, Calgary, Alberta, Canada T2P 3N9. The Group's controlling shareholder is Zeg Oil and Gas Limited ("ZOG") (incorporated in the British Virgin Islands) and its ultimate controlling parent is SBK Investment Holdings Limited (incorporated in the British Virgin Islands). The Group's ultimate controlling party is Baz Karim.

The Group's principal activities are to acquire and develop exploration and production assets in order to produce hydrocarbons and to increase oil and gas reserves.

The worldwide outbreak of the COVID-19 virus has not caused any significant disruption of Forza Petroleum's production operations, all of which are in the Kurdistan Region of Iraq ("KRI"). The Group has taken precautions to protect its employees and contractors and does not at this time expect that the virus outbreak will restrict operations.

The unaudited condensed consolidated interim financial statements (the "Financial Statements") were authorised for issue by the Board of Directors on May 6, 2021.

2. Summary of significant accounting policies

a. Basis of preparation

The Company's Financial Statements for the three months ended March 31, 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim financial reporting". The Financial Statements should be read in conjunction with Forza Petroleum's annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies included in the annual consolidated financial statements for the year ended December 31, 2020 are applicable to these Financial Statements.

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in the annual consolidated financial statements for the year ended December 31, 2020 and have been updated in these Financial Statements as required.

The Financial Statements are presented in the US Dollar currency (USD), which is also the functional currency of the Company.

b. Going concern

These 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.

2. Summary of significant accounting policies (continued)

b. Going concern (continued)

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 KRI Ministry of Natural Resources 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 KRI Ministry of Natural Resources 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. 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 (note 24) prior to June 30, 2022.

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 these 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.

c. New and amended standards issued but not yet effective

At the date of authorisation of these Financial Statements, the following standards applicable to the Group were issued but not yet effective:

New and Amended Standards	**Effective for annual periods beginning on or after**
Classification of Liabilities as Current or Non-Current (Amendments to IFRS 1)	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022

Management has reviewed the impact of the new and amended standards listed above and has concluded that if these standards were applied to these Financial Statements, they would not have a material impact.

3. Financial risk management

The financial risk management disclosure contained in Forza Petroleum's annual financial statements for the year ended December 31, 2020 is applicable to these Financial Statements.

4. Joint arrangements

The Group participates in one joint arrangement to facilitate the exploration, development and production of oil and gas as follows:

License Area	Classification	Location	Working interest
Hawler	Joint operation	Iraq – Kurdistan Region	65%

5. Intangible assets

$000s	Exploration & Evaluation costs	Computer Software	Total
Cost			
At January 1, 2020	**101,783**	**2,225**	**104,008**
Additions	200	-	200
At March 31, 2020	**101,983**	**2,225**	**104,208**
Additions	576	-	576
Disposal of subsidiary (note 11b)	(53,676)	-	(53,676)
At December 31, 2020	**48,883**	**2,225**	**51,108**
Additions	3	-	3
At March 31, 2021	**48,886**	**2,225**	**51,111**
Accumulated amortisation and impairment			
At January 1, 2020	**-**	**2,201**	**2,201**
Amortisation	-	3	3
At March 31, 2020	**-**	**2,204**	**2,204**
Amortisation	-	11	11
At December 31, 2020	**-**	**2,215**	**2,215**
Amortisation	-	3	3
At March 31, 2021	**-**	**2,218**	**2,218**
Carrying amount			
At March 31, 2021	48,886	7	48,893
At December 31, 2020	48,883	10	48,893

The carrying amounts of intangible E&E assets relate to the Hawler license area (Ain al Safra sub-contract area) at both March 31, 2021 and December 31, 2020.

On July 23, 2020, the Group's 100% shareholding in OP AGC Central Limited, the company that holds the interest in the AGC Central license area, was transferred to an affiliate of The Addax and Oryx Group PLC as consideration for the full settlement of borrowings, including accrued interest outstanding. Refer to note 12 for further information.

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.

The Group continues to judge that the Hawler – Ain al Safra sub-contract area constitutes an individual CGU and that there are no indicators suggesting that the carrying amount of the exploration and evaluation asset exceeds its recoverable amount. The Group plans to advance appraisal of the Ain al Safra sub-contract area by completing the Ain al Safra-2 well during the second half of 2021.

6. Property, plant and equipment

The Group's principal property, plant and equipment comprises its oil and gas assets in the Hawler license area in the Kurdistan Region of Iraq. No assets have been pledged as security.

$000s	Oil and gas Assets	Fixtures and Equipment	Total
Cost			
At January 1, 2020	**938,882**	**3,549**	**942,431**
Additions	4,491	17	4,508
At March 31, 2020	**943,373**	**3,566**	**946,939**
Additions	31,190	(16)	31,174
At December 31, 2020	**974,563**	**3,550**	**978,113**
Additions	7,022	2	7,024
At March 31, 2021	**981,585**	**3,552**	**985,137**
Accumulated depreciation, depletion and impairment			
At January 1, 2020	**327,463**	**3,416**	**330,879**
Impairment (1)	238,245	-	238,245
Depreciation	-	18	18
Depletion	7,573	-	7,573
At March 31, 2020	**573,281**	**3,434**	**576,715**
Impairment reversal (2)	(120,953)	-	(120,953)
Depreciation	-	57	57
Depletion	15,314	-	15,314
At December 31, 2020	**467,642**	**3,491**	**471,133**
Depreciation	-	22	22
Depletion	8,257	-	8,257
At March 31, 2021	**475,899**	**3,513**	**479,412**
Carrying amount			
At March 31, 2021	505,686(3)	39	505,725
At December 31, 2020	506,921(3)	59	506,980

(1) As at March 31, 2020 the Group recorded an impairment charge of $238.2 million relating to the Hawler license area. The impairment charge represented the difference between the estimated recoverable amount of the Hawler license area CGU and its carrying amount prior to the impairment charge.

(2) As at December 31, 2020, the Group recorded a $121.0 million impairment reversal relating to the Hawler license area. The impairment reversal represents the difference between the estimated recoverable amount of the Hawler license area CGU and its carrying amount prior to the impairment reversal.

(3) Oil and Gas assets include a decommissioning asset of $36.2 million (December 31, 2020 - $35.1 million).

The change in the Company's majority shareholder during 2020 represented a change in control under the Hawler license area PSC. In securing consent for the change in control of the Group's interest in the Hawler license area from the Ministry of Natural Resources of the KRI ("MNR"), the Group agreed to amend certain terms of the PSC governing the Hawler license area effective from July 1, 2020 ("2020 PSC Amendments"). Specifically, the Group agreed to a 22% reduction in the Group's recoverable cost pool related to its interest, and to finance all costs attributed to the 35% interest it does not own for the duration of the development period, without a cap on such financing facility.

Previously, the PSC required the Group to finance only the third party costs attributable to a 20% interest in the license, to a maximum of $300 million. The MNR agreed to waive any rights to perform an audit of costs incurred prior to January 1, 2021.

6. Property, plant and equipment (continued)

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. Management has determined that the Hawler license area, excluding the Ain al Safra sub-contract area, which is a separate E&E asset (note 5), constitutes the Group's single CGU which contains property, plant and equipment.

Management has determined that as March 31, 2021, there are no new substantive indicators suggesting that the carrying amount of the Hawler license area Oil and Gas assets exceeds its recoverable amount nor were there indicators suggesting that the previously recognized impairment losses no longer exist or may have decreased.

7. Inventories

$000s	March 31 2021	December 31 2020
Oil inventory	256	218
Materials, net of provision	9,466	8,568
	9,722	**8,786**

The cost of oil inventory is expensed through production and depletion expenses in the period during which it is sold. As at March 31, 2021, the Group's working interest share of oil inventory was 12,800 bbl (December 31, 2020 – 10,760 bbl).

The Group has adjusted the carrying value of materials inventory to management's estimate of net realisable value. The provision at March 31, 2021 is $5.4 million (December 31, 2020: $6.9 million) and income of $1.5 million has been included in other income/expense during the three months ended March 31, 2021 to reflect the change in the provision (March 31, 2020 – expense of $4.6 million) (note 20).

No inventories have been pledged as security during the period.

8. Trade and other receivables

$000s	March 31 2021	December 31 2020
Revenue receivables, net of provision	26,161	24,622
Other receivables	1,450	1,404
	27,611	**26,026**

Trade and other receivables are denominated in US Dollars. The Group received communication from the office of the Prime Minister of the government of the KRI in late March 2020 proposing 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. As at March 31, 2021 the remaining past due receivable is $12 million (December 31, 2020 - $22 million).

The revenue receivables balance at March 31, 2021 is presented net of an expected credit loss provision of $0.2 million (December 31, 2020 – $3.6 million) and is a reasonable approximation of the fair value.

9. Other current assets

$000s	March 31 2021	December 31 2020
Prepaid charges and other current assets	1,852	1,068
Deposits	318	272
	2,170	**1,340**

10. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits with an original maturity of three months or less. The carrying amounts are reasonable approximations of the fair value.

11. Trade and other payables

$000s	March 31 2021	December 31 2020
Trade accounts payable	10,012	14,113
Other payables and accrued liabilities	8,628	16,318
	18,640	**30,431**
HMB license arbitration award	-	15,725
Contingent consideration (note 24)	60,929	-
Current portion	**79,569**	**46,156**
Contingent consideration, non-current (note 24)	-	56,632
Total trade and other payables	**79,569**	**102,788**

The carrying amounts of trade accounts payables and other payables and accrued liabilities, as presented above are reasonable approximations of their fair values.

a. Contingent consideration

As at March 31, 2021, the Group has recognised a current liability of $60.9 million (December 31, 2020 - $56.6 million, non-current) representing the estimated fair value of contingent consideration arising upon the acquisition of OP Hawler Kurdistan Limited. The liability is presented at fair value estimated using the expected present value technique where the projected contingent future cash out flow has been discounted at a rate of 10% (note 24).

b. HMB license arbitration award

On April 23, 2018, OP Congo SA (the "Seller"), a wholly-owned subsidiary of the Company, entered into an agreement providing for the sale of a 30% working interest in the Haute Mer B exploration license offshore Congo (Brazzaville) ("HMB License") to the HMB License's operator (the "Buyer") (the "Sale Agreement"). The Sale Agreement provided for the Seller's interest in the HMB License to be transferred for cash consideration of $13.3 million.

During the second quarter of 2019, the Buyer and other members of the HMB License contractor group relinquished their rights to explore and produce crude oil from the license area.

Contrary to the Seller's position that all conditions to closing were either satisfied or waived, the Buyer declined to close the transaction and purported to terminate the Sale Agreement. The matter was referred to arbitration.

On January 31, 2020, the arbitration tribunal released its decision rejecting the Seller's position that all conditions to closing had been either satisfied or waived and that the Buyer was required to close the transaction and acquire the Seller's interest. Accordingly, the tribunal awarded $15.7 million to the Buyer including $15.1 million in respect of the Seller's share of HMB License expenditures incurred by the Buyer following the date of and in accordance with the Sale Agreement.

11. Trade and other payables (continued)

b. HMB license arbitration award (continued)

OP Congo SA initiated liquidation proceedings in Congo (Brazzaville) during the year ended December 31, 2020. The liquidation was opened and a liquidation trustee appointed by the Pointe-Noire Tribunal of Commerce on March 24, 2021. From such date, the Company no longer has control over this entity and OP Congo SA has been deconsolidated from the Group, resulting in $15.7 million gain during the three months ended March 31, 2021.

12. Borrowings

Prior to July 23, 2020, the Group's indirect controlling shareholder was The Addax and Oryx Group PLC ("AOG"). On March 11, 2015, the Group entered into a committed and unsecured term loan facility agreement (the "Loan Facility") with a subsidiary of AOG (the "Lender"). The carrying value of the Loan Facility was measured at amortised cost using the effective interest rate method, and its components are summarised in the table below:

At January 1, 2020	**79,883**
Interest expense	4,471
Deferred financing costs (note 15b)	(2,404)
Accretion of deferred financing costs	2,578
Payment of accrued interest	(4,025)
Settlement (non-cash)	(80,503)
At December 31, 2020 and March 31, 2021	**-**

The Loan Facility was fully drawn and had an initial maturity of March 10, 2018 (the "Maturity Date"). The Loan Facility was subsequently amended in April 2017, December 2018 and March 2020, ultimately extending the Maturity Date to July 1, 2021, in consideration for amended interest settlement terms and the successive issuances of warrants to subscribe for an aggregate of 39,281,804 common shares in the Company. On July 23, 2020, the Borrowings were settled in full, including accrued interest, through the transfer of the Group's 100% shareholding in OP AGC Central Limited, the company that held the interest in the AGC Central license area. A gain of $26.9 million was recorded upon settlement of the Borrowings amount and transfer of the shareholding in OP AGC Central Limited during the third quarter of 2020. The Borrowings amounted to $80.5 million (including accrued interest) at the date of final settlement.

13. 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. The fair value and the carrying value of the ZOG Credit Facility are not materially different.

14. Decommissioning obligation

The Group has obligations to decommission its oil and gas assets upon cessation of operations. In calculating the value of the Group's future decommissioning obligation at March 31, 2021, management has made significant assumptions and estimates based on an assessment of the current economic environment and factors specific to the assets to be decommissioned. These estimates are reviewed annually and when circumstances suggest that such revisions are required. Actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning may depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil prices, which are inherently uncertain.

14. Decommissioning obligation (continued)

The assumed inflation rate used in the calculation to determine the carrying value of the decommissioning obligation was updated on June 30, 2020 to 1.2% (December 31, 2019 – 0.2%). The assumed discount rate was also reviewed as at June 30, 2020 and was updated to 2.4% (December 31, 2019 – 2.5%). Decommissioning obligations, all of which relate to the Hawler license in the KRI are anticipated to be incurred in 2038.

In connection with the 2020 PSC Amendments described in note 6, the Group's share of estimated future cash flows associated with the decommissioning obligation increased during the year ended December 31, 2020.

The estimated net present value of the decommissioning obligation at March 31, 2021 is $40.6 million (December 31, 2020 - $39.5 million) based on the Group's undiscounted liability of $61.7 million (December 31, 2020 - $60.4 million).

$000s	Three months ended March 31, 2021	Year ended December 31, 2020
Decommissioning obligation, beginning of the period	**39,485**	**20,692**
Change in future cash flow estimates due to 2020 PSC Amendments (note 6)	-	13,611
Change in inflation rate	-	4,190
Change in discount rate	-	455
Property development activity	1,008	67
	40,493	**39,015**
Accretion expense	118	470
Decommissioning obligation, end of the period	**40,611**	**39,485**

15. Share capital

a. Issued common shares

	Number of shares	Share capital $000s
At January 1, 2020 and March 31, 2020	**552,481,662**	**1,361,043**
Issue of shares for LTIP	25,715,556	1,590
At December 31, 2020 and March 31, 2021	**578,197,218**	**1,362,633**

The Company has unlimited authorised share capital at March 31, 2021.

2020 share capital transactions

On July 23, 2020 and July 31, 2020, respectively, the Company issued 10,248,050 common shares and 15,467,506 common shares to employees under the Group's LTIP.

b. Warrants

In 2019 and then in March 2020, respectively, in accordance with successive amendments to the Loan Facility (note 17), the Group issued warrants to an affiliate of the Lender 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 March 31, 2021.

In connection with the change of control of the Company in July 2020, the outstanding warrants were all transferred by the affiliate of the Lender to ZOG on July 23, 2020.

16. Basic and diluted earnings / (loss) per share

The earnings / (loss) and weighted average number of common shares used in the calculation of the basic and diluted (loss) earnings per share are as follows:

	Three months ended March 31	
	2021	**2020**
Profit / (loss) for the period attributable to equity holders ($000s)	21,165	(249,590)
Weighted average number of common shares for basic and diluted earnings / (loss) per share (1) (2)	578,197,218	552,481,662
Basic and diluted earnings / (loss) per share - $	**0.04**	**(0.45)**

(1) The unvested LTIP shares are excluded as they are anti-dilutive.
(2) Outstanding warrants are excluded from diluted shares for the periods ended March 31, 2021 and March 31, 2020 as they are anti-dilutive for the periods.

17. Reserves

$000s	**Share based payments**	**Other Reserves**	**Total reserves**
At January 1, 2020	**15,951**	**2,643**	**18,594**
Share based payment transactions	874	-	874
Issue of warrants (note 15b)	2,404	-	2,404
At March 31, 2020	**19,229**	**2,643**	**21,872**
Share based payment transactions	2,900	-	2,900
Issue of shares for LTIP	(1,590)	-	(1,590)
At December 31, 2020	**20,539**	**2,643**	**23,182**
Share based payment transactions	146	-	146
At March 31, 2021	**20,685**	**2,643**	**23,328**

18. Supplemental cash flow information

Items not involving cash

	Three months ended March 31	
$000s	**2021**	**2020**
Gain on deconsolidation of subsidiary	(15,725)	-
Depreciation, depletion and amortisation	8,256	7,601
Share based payment expense	33	614
Net impairment expense	-	238,245
Unrealised foreign exchange gains / (losses)	187	(24)
Income tax expense	10	3
Finance costs	221	2,626
General and administration	128	332
Change in fair value of contingent consideration	4,194	(1,873)
Other (income) / expense	(1,795)	8,982
Items not involving cash	**(4,491)**	**256,506**

18. Supplemental cash flow information (continued)

Cash flows relating to non-cash working capital

	Three months ended March 31	
$000s	**2021**	**2020**
Inventories	(2,403)	559
Trade and other receivables	(7,333)	(10,776)
Other current assets	(830)	395
Trade and other payables	(2,976)	6,037
Cash flows relating to non-cash working capital	**(13,543)**	**(3,785)**

The cash flows relating to non-cash working capital relate to the following activities:

	Three months ended March 31	
$000s	**2021**	**2020**
Operations	(12,249)	254
Investing - PP&E	(1,294)	(4,039)
Cash flows relating to non-cash working capital	**(13,543)**	**(3,785)**

Other cash flow Information

	Three months ended March 31	
$000s	**2021**	**2020**
Cash income taxes paid	21	96

19. Income tax expense

	Three months ended March 31	
$000s	**2021**	**2020**
Current income tax expense	725	738
Deferred tax on LTIP shares	10	3
Income tax expense	**735**	**741**

The Group is subject to income taxes in certain jurisdictions where it holds interests in exploration and development licenses or has taxable operations. Current income tax expense relates to tax on profits from oil sales in the KRI and on taxable profits from operations of the Group's Swiss and Maltese subsidiaries. For the three months ended March 31, 2021, income taxes related to oil sales in the KRI in the amount of $0.7 million (2020 - $0.7 million) were deemed to be collected by the government through its allocation of Profit Oil under the Hawler PSC.

20. Other income / (expense)

The components of other income / (expense) for the periods indicated are as follows:

		Three months ended March 31	
$000s	**Note**	**2021**	**2020**
Decrease / (increase) of expected credit loss provision against trade and other receivables	**9**	3,303	(4,367)
Reduction / (increase) in materials inventory provision	**8**	1,490	(4,603)
Restructuring charges(1)		-	(772)
Other		-	56
Other income / (expense)		**4,793**	**(9,686)**

(1) During the three months ended March 31, 2020, the Group effected a workforce re-organisation as part of its efforts to reduce costs and recorded a restructuring charge.

21. Finance costs

The components of finance costs for the periods indicated are as follows:

		Three months ended March 31	
$000s	**Note**	**2021**	**2020**
Accretion of decommissioning obligation	**14**	118	118
Interest accrued on contingent consideration	**24**	103	331
Interest on borrowings	**12**	-	1,985
Accretion of deferred financing costs	**12**	-	191
Other		-	1
Finance costs		**221**	**2,626**

22. Segment information

The Group has a single class of business which is to acquire, explore, develop and produce oil from oil and gas assets. The Group operated in two geographical areas until July 23, 2020. During the third quarter of 2020, the group ceased all its activities in West Africa (notes 6 and 12). Segment information related to the Middle East operating segment and corporate activities is as follows:

For the three months ended March 31, 2021 **$000s**	**Middle East**	**Corporate**	**Total**
Revenue	35,728	-	35,728
Royalty	(14,679)	-	(14,679)
Net revenue	**21,049**	**-**	**21,049**
Operating expense	(6,100)	-	(6,100)
Depreciation, depletion and amortisation	(8,236)	(20)	(8,256)
General and administration expense	(811)	(270)	(1,081)
Other income	4,793	-	4,793
Gain on deconsolidation of subsidiary	-	15,725	15,725
Change in fair value of contingent consideration	(4,194)	-	(4,194)
Segment result	**6,501**	**15,435**	**21,936**
Finance costs			(221)
Foreign exchange gain			185
Loss before income tax			**21,900**
Income tax expense			(735)
Loss for the period			**21,165**
Capital additions	7,025	-	7,025
Segment assets as at March 31, 2021	603,379	1,113	604,492
Segment liabilities as at March 31, 2021	123,885	2,917	126,802

For the three months ended March 31, 2020 **$000s**	**Middle East**	**West Africa**	**Corporate**	**Total**
Revenue	31,859	-	-	31,859
Royalty	(14,020)	-	-	(14,020)
Net revenue	**17,839**	**-**	**-**	**17,839**
Operating expense	(7,678)	-	-	(7,678)
Depreciation, depletion and amortisation	(7,578)	-	(23)	(7,601)
Impairment	(238,245)	-	-	(238,245)
General and administration	(1,538)	(198)	(1,002)	(2,738)
Other expense	(8,967)	(486)	(233)	(9,686)
Change in fair value of contingent consideration	1,873	-	-	1,873
Segment result	**(244,294)**	**(684)**	**(1,258)**	**(246,236)**
Finance expense				(2,626)
Foreign exchange gain				13
Loss before income tax				**(248,849)**
Income tax expense				(741)
Loss for the period				**(249,590)**
Capital additions	4,494	197	17	4,708
Segment assets as at March 31, 2020	466,468	54,049	1,695	522,212
Segment liabilities as at March 31, 2020	184,025	17,488	7,959	209,472

22. Segment information (continued)

Non-current assets, aggregated by country, are as follows:

$000s	March 31 2021	December 31 2020
Iraq (Kurdistan Region)	554,583	555,815
Other	254	287
	554,837	**556,102**

23. Commitments

The Group has entered into agreements which contain provisions for the following spending commitments:

$000s	March 31 2021	December 31 2020
No later than one year	2,479	2,479
One to five years	9,915	9,915
Greater than five years	19,834	19,834
	32,228	**32,228**

The commitments noted above reflect the Group’s expected PSC costs relating to the Hawler license. These commitments may be subject to change and would be reduced by the relinquishment of the Hawler license area.

24. Contingent liabilities and consideration

Contingent liabilities

In the normal course of operations, the Group may be subject to litigation and claims. In management’s estimation, other than as has been recognised or disclosed within these Financial Statements, no such litigation or claim, individually or in aggregate, is expected to result in a liability that would have a significant adverse effect on the financial position or results of operations of the Group.

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 USD LIBOR plus 0.25% per annum becomes payable if a second Hawler license area discovery, beyond the initially declared Demir Dagh 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 materialize, 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.

24. Contingent liabilities and consideration (continued)

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) (note 11a).

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 now classified as level 3 in the fair value hierarchy (December 31, 2020 – level 3).

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.