FORZA PETROLEUM

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

FOR THE THREE MONTHS ENDED
MARCH 31, 2022 AND 2021

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, 2022 and 2021 (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 13, 2022.

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.

Readers should refer to the "Forward-Looking Information" advisory on page 13. Additional information relating to FPL, including FPL's Annual Information Form dated March 23, 2022, is on SEDAR at 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 14,600 bbl/d (working interest 9,500 bbl/d) in Q1 2022;
- Average gross (100%) oil production of 15,100 bbl/d (working interest 9,800 bbl/d) for April 2022;
- Three wells were drilled and completed during the first quarter of 2022. The Demir Dagh-10H and Zey Gawra-9H wells are on production and completion of the Demir Dagh-3H well has been suspended temporarily while on-going fluid and rock compatibility studies are completed;
- The Demir Dagh-14 well targeting the Cretaceous reservoir of the Demir Dagh field was spudded on March 22, 2022 and total-depth of the pilot hole was reached on May 9, 2022. Drilling operations are somewhat behind schedule but the Group expects to complete the well later this month and turn it over to production in early June. A second drilling rig under contract with the Group has been demobilized from the Hawler License Area for maintenance, inspection and recertification;
- The worldwide outbreak of the COVID-19 virus, including within Iraq, has not directly impacted the Group's operations and all extraordinary procedures and restrictions implemented by the Group to limit the risk of infection and illness among staff have been discontinued.

Financial Highlights and Outlook

Liquidity outlook

The Group expects cash on hand as of March 31, 2022 and cash receipts from net revenues from sales, exclusively made to the KRG at the tie-in to the Kurdistan Oil Export Pipeline, will fund its forecasted capital expenditures and operating and administrative costs through the end of June 2023 and fund the $76.2 million in deferred purchase consideration that falls due in 2023 in connection with the original acquisition of the Hawler License Area.

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

Financial performance

The following table contains financial performance highlights for the three months ended March 31, 2022 and March 31, 2021.

($ thousands unless otherwise stated)	Three months ended	
	March 31, 2022	March 31, 2021
Revenue	82,361	35,728
Cash generated from operating activities	12,581	4,207
Cash generated from operating activities per basic and diluted share ($/share)	0.02	0.01
Profit / (Loss) for the period	22,237	21,165
Earnings / (Loss) per basic and diluted share ($/share)	0.04	0.04
Average sales price ($/bbl)	81.07	44.44
Field operating costs(1) ($/bbl)	6.64	5.89
Operating expense ($/bbl)	10.21	9.06
Capital additions(2)	19,066	7,025

Notes:

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

(2) Before non-cash additions to the decommissioning calculation due to drilling activity during the period.

Revenue and cash receipts

Revenue of $82.4 million was recorded for the three months ended March 31, 2022. Included in revenue is $69.0 million ($81.07/bbl) realized on the sale of 851,000 bbl (WI) of crude oil and $13.4 million related to the recovery of costs carried on behalf of partners. Revenue for the first quarter of 2022 increased by $46.6 million compared to the same period in 2021. The increase is attributable to an 82% increase in realized sales price and a 26% increase in sales volumes.

All sales during the three months ended March 31, 2022 were made via the Kurdistan Oil Export Pipeline.

The Group has received full payment for all oil sales made up to the end of January 2022.

Operating expense

Operating expense during the first quarter of 2022 amounted to $8.7 million ($10.21/bbl) versus $6.1 million ($9.06/bbl) during the first quarter of 2021.

Field operating costs during the first quarter of 2022 amounted to $5.6 million ($6.64/bbl) compared to $4.0 million ($5.89/bbl) during the first quarter of 2021. Field operating costs per barrel increased for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 as a result of a 42% increase in security and diesel costs, partially offset by a 26% increase in sales volumes. The increased security costs were due to a higher rate in the first quarter of 2022, compared to a temporarily reduced rate in the first quarter of 2021. Diesel costs have increased due to both higher costs and increased activity during the three months ended March 31, 2022 compared to the same period in 2021. Field operating costs represent Forza Petroleum's Working Interest share of gross operating costs and exclude partner share of operating costs which are being carried by Forza Petroleum.

Cash generated from operating activities

Cash generated from operating activities for the first quarter of 2022 was $12.6 million compared to $4.2 million during the same period in 2021. The increase mainly relates to higher crude oil sales revenue received during the period, partially offset by an increase in royalties 'and cash payments relating to operating expenses. Royalties increase proportionally with sales revenue. The increase in operating expenses primarily relates to increased activity, including a greater number producing wells. The cash balance was impacted by an additional month delay on outstanding payments during the first quarter of 2022; two revenue payments were received during the three months ended March 31, 2022 compared to three revenue payments received during the three months ended December 31, 2021.

Profit / Loss

Profit for the three months ended March 31, 2022 was $22.2 million compared to a profit of $21.2 million during the first quarter of 2021. The variance in profit for three months ended March 31, 2022 compared to the same period in 2021 is primarily attributable to i) a $27.6 million increase in net revenue resulting from increased realized sales price and recovery of carried costs, combined with higher sales volumes; and ii) a $2.6 million decrease in the non-cash charge resulting from the increase in the fair value of the purchase consideration obligation. These positive factors have been largely offset by i) no one-time gains during the period to replace a non-recurring gain of $15.7 million recorded during the three months ended March 31, 2021 relating to the deconsolidation of OP Congo SA; ii) a $4.1 million non-cash increase in the depletion charge for the quarter ended March 31, 2022 as a result of increased production volumes and a higher depletion rate per barrel; iii) a $3.3 million decrease to the trade and other receivables provision during the three months ended March 31, 2021; iv) a net $1.7 million increase to the materials inventory provision; v) a $2.6 million increase in operating expense as a result of increased security and diesel costs; and vi) a $0.9 million increase in income tax expense as a result of increased net revenue.

Capital additions

During the first quarter of 2022, the Group recorded capital additions of $20.3 million, including $18.1 million invested in drilling activities in the Demir Dagh and Zey Gawra fields. Additional amounts of $0.6 million and $0.4 million were also recorded on directly attributable support costs and facilities, respectively, with the remainder represented by a $1.2 million 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, 2022	December 31, 2021
Total cash and cash equivalents	16,614	24,672
Working Capital	(6,250)	45,416
Total assets	612,524	587,725
Total long-term liabilities	29,837	96,095

The cash and cash equivalents balance of $16.6 million as at March 31, 2022 decreased from $24.7 million at December 31, 2021. This decrease is due to $12.6 million in cash generated from operating activities offset by $20.6 million in cash used in investing activities. The cash balance was impacted by an additional month delay on outstanding payments during the first quarter of 2022; two revenue payments were received during the three months ended March 31, 2022 compared to three revenue payments received during the three months ended December 31, 2021.

Working capital decreased from $45.4 million at December 31, 2021 to negative $6.3 million at March 31, 2022 mainly due to i) the inclusion of the purchase consideration of $69.3 million as a current portion of trade and other payables, previously classified as non-current (December 31, 2021 - $67.6 million); ii) a $0.7 million increase in the trade and other payables balance; iii) a $8.1 million decrease in the cash and cash equivalents balance; and iv) a $0.6 million decrease in the inventory balance. These negative factors were partially offset by i) a $25.2 million increase in the trade and other receivables balance; and ii) a $0.4 million increase in the other current assets balance.

The total assets balance increased to $612.5 million at March 31, 2022 from $587.7 million at December 31, 2021. This change is primarily due to i) $20.3 million of capital additions; and ii) a $25.2 million increase in trade and other receivables. These positive factors were partially offset by i) a depletion expense of $12.4 million; and ii) a $8.1 million decrease in cash and cash equivalents.

The $66.3 million decrease in total long-term liabilities from December 31, 2021 is due to the reclassification of the purchase consideration of $69.3 million from a non-current trade and other payables to current (December 31, 2021 - $67.6 million), partially offset by a $1.3 million increase in the decommissioning balance.

The undiscounted balance of principal and accrued interest owed under the purchase consideration obligation to the vendor of the Hawler License Area as at March 31, 2022 was $76.2 million (December 31, 2021 - $76.2 million).

Business Environment

Following various destabilizing geopolitical events impacting the KRI over several years, relative political stability over the last three years has supported conditions where the Group has been able to advance its activities in the KRI. However, the 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. And, 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. 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.

On February 15, 2022, the Iraqi Federal Supreme Court (the "**Court**") ruled as unconstitutional the KRG Law No. 28 of 2007, which regulates the oil and gas sector in the KRI. The Court's judgment also provides that the Iraqi Ministry of Oil may pursue the annulment of PSCs that have been entered into by the KRG. In a statement released on February 16, 2022, the KRG challenges the Court's judgment and stresses that "it will take all constitutional, legal, and judicial measures to protect and preserve all contracts made in the oil and gas sector". Normal operations are being maintained at the Hawler License Area. As at May 13, 2022 the Group has received payment for all Hawler oil sales made to the KRG up to January 2022.

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 was a sharp recovery in both global economic activity and oil price in 2021 and into 2022, however, lockdowns and other restrictions periodically imposed in response to local outbreaks undermine any developing positive sentiment. As demonstrated by the global response to the invasion of Ukraine by Russia, price volatility may now be a permanent feature of the oil and gas industry. Ongoing elevated levels of uncertainty regarding returns on investments in upstream oil and gas exploration and development continues to impact the availability and cost of capital resources.

Future oil prices, which directly impact the Group's expected cash inflows, are 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 realized and, consequently, Forza Petroleum's cash flows. Complexities in local, regional, and international market access may impact the Group's realized 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 the KRG at the tie-in to 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 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. International sanctions related to the Russian invasion of Ukraine could impact the ability of producers to export through the Kurdistan Oil Export Pipeline or to realize payment for such sales. To date, there has been no such impact.

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, 2022, 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 summarizes production and sales data for the three months ended March 31, 2022, December 31, 2021, and March 31, 2021:

	Three months ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Gross (100%) Production (bbl)	1,311,700	1,174,100	1,039,100
Gross (100%) Production per day (bbl/d)	14,600	12,800	11,500
Working Interest production (bbl)	852,600	763,200	675,400
Working Interest production per day (bbl/d)	9,500	8,300	7,500
Working Interest sales (bbl)	851,000	762,300	673,400
Working Interest sales per day (bbl/d)	9,500	8,300	7,500

Production and sales

Gross (100%) oil production for the three months ended March 31, 2022 was 1,311,700 bbl representing an average rate of 14,600 bbl/d. The Group's Working Interest share of oil production during this period was 852,600 bbl representing an average rate of 9,500 bbl/d.

The Group recognized revenue on the sale of 851,000 bbl (Working Interest) of crude oil during the three months ended March 31, 2022.

Crude oil sale prices

Commencing in March 2016, the Group began selling crude oil to the KRG's Ministry of Natural Resources at Forza Petroleum's tie-in into the Kurdistan Oil Export Pipeline. The realized prices on sales through this pipeline are referenced to the monthly average Dated Brent crude oil prices, discounted by approximately $10/bbl for pipeline system tariffs and fees, and adjusted for differences in oil gravity and sulphur from standard Brent specifications.

During the first quarter of 2022, the KRG applied updated pipeline tariff charges, which are now partially linked to Dated Brent crude prices. Net revenue for the first quarter of 2022 includes a $1.2 million one-time adjustment related to the retroactive application of this change for the year ended December 31, 2021.

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

	2022	2021				2020		
	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	Jun 30
Brent average price ($/bbl)	102.23	79.76	73.51	69.19	61.12	44.16	42.95	29.56
Realized sales price ($/bbl)	81.07	63.37	56.81	52.32	44.44	27.44	26.35	15.78

Hawler license operation and appraisal

Production from the Demir Dagh, Banan and Zey Gawra fields continued throughout the first quarter of 2022.

The worldwide outbreak of the COVID-19 virus, including within Iraq, has not significantly impacted operations. All procedures and restrictions implemented by the Corporation to limit the risk of infection and illness among staff have been discontinued.

Capital Additions

The following table summarizes the capital additions incurred by activity during the three months ended March 31, 2022 and March 31, 2021:

	Three months ended	
($ thousands)	March 31, 2022	March 31, 2021
Drilling	18,132	5,386
Facilities	360	462
Studies, license, and support	574	169
Sub-Total	**19,066**	**6,017**
Decommissioning[(1)]	1,216	1,008
Total capital additions	**20,282**	**7,025**

Note:

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

Middle East

During the three months ended March 31, 2022, the Group invested $19.1 million in the Hawler License Area. Drilling costs of $17.1 million were incurred on the Zey Gawra-9 Cretaceous well, the Demir Dagh-12 and -14 Cretaceous wells, the Demir Dagh-10 sidetrack and the Demir Dagh-3H workover during the quarter. Additional drilling costs of $1.0 million were incurred in preparation for drilling future wells. Expenditure of $0.4 million on facilities and $0.6 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 Pool

The Cost Pool for the Hawler License Area, which is available for recovery through future oil sales from the License Area, as at March 31, 2022, is detailed in the table below:

License Area	Location	Gross Cost Pool[3]	Group Working Interest Cost Pool	Costs carried by Forza Petroleum	Costs recovered through cost oil	Group share of recoverable costs available[1][2]
		($ million)	($ million)	($ million)	($ million)	($ million)
Hawler	Iraq – Kurdistan Region	1,065.2	538.9	231.4	311.6	458.7

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.

(3) The difference between the Gross Cost Pool and the Group Working Interest Cost Pool is the former includes the partners' share of total expenditure (both carried and not carried by Forza Petroleum) as well as $137 million of costs which were deducted from the Group's Working Interest Cost Pool as agreed with the Ministry of Natural Resources in connection with the change in control of the Company in July 2020.

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, 2022:

($ thousands)	Exploration and Evaluation Assets	Total Intangible Assets
As at January 1, 2022	**47,748**	**47,748**
Capital additions	1	1
As at March 31, 2022	**47,749**	**47,749**

($ thousands)	Oil & Gas assets	Total PP&E
As at January 1, 2022	**469,517**	**469,517**
Capital additions	20,281	20,281
DD&A	(12,412)	(12,412)
As at March 31, 2022	**477,386**	**477,386**

Financial Results

Revenue

The following table summarizes Forza Petroleum's revenue for the three months ended March 31, 2022 and 2021. All oil sold during each of the below periods was produced at the Hawler License Area.

($ thousands)	Three months ended March 31 2022	2021
Oil Sales	68,988	29,927
Recovery of Carried Costs	13,373	5,801
Revenue	**82,361**	**35,728**

Revenue of $82.4 million was recorded for the three months ended March 31, 2022. Included in revenue is $69.0 million ($81.07/bbl) realized on the sale of 851,000 bbl (WI) of crude oil and $13.4 million related to the recovery of costs carried on behalf of partners. Revenue from sales increased by $39.1 million compared to the same period in the previous year due to an 82% increase in realized sales price combined with a 26% increase in sales volumes. Overall revenue was $46.6 million higher due to the increased sales revenue and 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, 2022, the Group's Working Interest share of oil inventory amounted to 13,800 bbl.

Royalties

The following table summarizes royalty expense during the three months ended March 31, 2022 and March 31, 2021:

	Three months ended March 31	
($ thousands)	2022	2021
Royalties	**33,701**	**14,679**

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 $19.0 million during the three months ended March 31, 2022 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

	Three months ended March 31	
($ thousands)	2022	2021
Field operating costs[1]	5,648	3,965
Partner's share of operating costs carried by Forza Petroleum	3,042	2,135
Operating expense	**8,690**	**6,100**
Sales[2] (bbl)	851,000	673,400
Field operating costs[1] ($/bbl)	**6.64**	**5.89**
Operating expense ($/bbl)	**10.21**	**9.06**

Notes:

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

(2) Forza Petroleum's Working Interest share.

Operating expense of $8.7 million in the three months ended March 31, 2022 increased by $2.6 million compared to the same period in the previous year. The increase in operating expenses is primarily attributable to increased security and diesel costs. The increased security costs were due to a higher rate in the first quarter of 2022, compared to a temporarily reduced rate in the first quarter of 2021. Diesel costs have increased due to both higher costs and increased activity during the three months ended March 31, 2022 compared to the same period in 2021. Operating costs per barrel increased during the three months ended March 31, 2022 compared to the three months ended March 31, 2021 due to a 42% increase in costs partially offset by a 26% increase in sales volumes.

The following table indicates the impact of the variances in operating expense between the fourth quarter of 2021 and first quarter of 2022:

($ thousands)	($000)	($/bbl)
Operating expense – three months ended December 31, 2021	**9,340**	**12.25**
Contribution of the following to variance:		
Personnel and camp costs	106	0.12
Well maintenance	(1,506)	(1.76)
Facilities lease and maintenance, diesel and operation	579	0.68
Security	171	0.20
Decrease in production	-	(1.28)
Operating expense – three months ended March 31, 2022	**8,690**	**10.21**

The decrease in well maintenance costs during the first quarter of 2022 is due to the Banan-4 workover performed during the three months ended December 31, 2021. No similar operation was performed during the three months ended March 31, 2022.

General and administration

	Three months ended March 31	
($ thousands)	2022	2021
General and administration	**1,740**	**1,081**

General and administration expenses of $1.7 million were recorded for the three months ended March 31, 2022 versus $1.1 million in the comparable period during 2021. The increase between periods is primarily due to higher performance related bonuses paid in the first quarter of 2022 then were previously accrued.

Depletion, depreciation and amortisation

The following table summarizes the component parts of depletion, depreciation and amortization for the three months ended March 31, 2022 and 2021:

	Three months ended March 31	
($ thousands)	2022	2021
Depletion	12,399	8,234
Intangible assets: Amortization	-	3
PP&E assets: Depreciation	-	19
Total DD&A	**12,399**	**8,256**

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, 2022 are primarily due to increased sales volumes and to a higher per barrel depletion charge. A higher per barrel depletion charge this quarter results primarily from a reduction in proved plus probable oil reserve estimates at December 31, 2021.

Other (expense) / income

The following table summarizes the components of other income / (expense) for the three months ended March 31, 2022 compared to the same period in 2021:

	Three months ended March 31	
($ thousands)	2022	2021
Decrease of provision against trade and other receivables	-	3,303
Reduction / (Increase) in materials inventory provision	(241)	1,490
Other income / (expense)	**(241)**	**4,793**

Other expense for the three months ended March 31, 2022 relates to a $0.2 million expense resulting from an increase in the materials inventory provision. Other income for the three months ended March 31, 2021 consists of 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 increase in the materials inventory provision in the current period is due to a lower projected use of existing materials inventory than was projected in the prior period.

Finance expense

	Three months ended March 31	
($ thousands)	2022	2021
Accretion of decommissioning liability	71	118
Interest on purchase consideration	-	103
Finance expense	**71**	**221**

Finance expense for the three months ended March 31, 2022 relates to accretion of the decommissioning liability. Finance expense for the three months ended March 31, 2021 relates to interest on the purchase consideration and accretion of the decommissioning liability.

Interest on purchase consideration is discussed in the "Liquidity and Capital Resources" section of this MD&A.

Income tax expense

The following table summarizes the component parts of income tax expense for the three months ended March 31, 2022 and March 31, 2021.

	Three months ended March 31	
($ thousands)	2022	2021
Current income tax expense	1,670	725
Deferred tax (benefit) / expense	(2)	10
Total income tax expense	**1,668**	**735**

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, 2022, 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.

Purchase consideration

During 2011, the Group acquired OP Hawler Kurdistan Limited ("**OPHK**L") under the terms of a sale and purchase agreement (the "Purchase Agreement"). Pursuant to the terms of the Purchase Agreement, additional purchase consideration in the amount of $71 million plus interest at LIBOR plus 0.25% per annum was due to the seller of OPHKL in the event of a second commercial discovery.

On July 31, 2017, the amount of $5 million plus accrued interest was paid against the obligation to secure an option to restructure the contingent obligation in a series of annual payments. The option expired on September 30, 2018.

On July 9, 2021 the Group entered into an agreement ("**the Forbearance Agreement**") with the seller of OPHKL which established that, in the event of a second commercial discovery, the Group has the unconditional right to defer settlement of the consideration until March 31, 2023.

The Forbearance Agreement establishes that interest will not accrue on the liability from July 23, 2020 to March 31, 2023. Therefore, interest previously accrued from July 23, 2020 until July 8, 2021 of $0.5 million was reversed and released to the Consolidated Statements of Profit and Other Comprehensive Income during the three months ended September 30, 2021.

The Forbearance Agreement contemplates that the parties will undertake reasonable best efforts to negotiate a settlement arrangement in respect of the outstanding obligation under the Purchase Agreement. In consideration for such forbearance the Group accepted that, to the extent that any distributions were to be made to the Company's shareholders during the forbearance period, an equivalent sum would become payable to the seller of OPHKL, up to the maximum amount of the liability.

Although the above-contemplated settlement negotiations are pending, the Group determined that the additional purchase liability had crystallized as at December 31, 2021. The balance of unpaid principal and accrued interest owed to the vendor of the Hawler License Area was $76.2 million, as at both March 31, 2022 and December 31, 2021. Under the terms of the Forbearance Agreement no amounts are due prior to March 31, 2023, therefore, as at March 31, 2022, the Group has recognized a current liability of $69.3 million (December 31, 2021 - $67.6 million, non-current) representing the estimated fair value of the obligation. Fair value is determined by discounting the projected future cash flows at a rate of 10%.

Liquidity outlook

The Group expects cash on hand as of March 31, 2022 and cash receipts from net revenues from sales, exclusively made to the KRG at the tie-in to the Kurdistan Oil Export Pipeline, will fund its forecasted capital expenditures and operating and administrative costs through the end of June 2023 and fund the $76.2 million in deferred purchase consideration that falls due in 2023 in connection with the original acquisition of the Hawler License Area.

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 summarizes the components of Forza Petroleum's consolidated cash flows for the periods indicated:

	Three months ended March 31	
($ thousands)	2022	2021
Net cash generated from operating activities	12,581	4,207
Net cash used in investing activities	(20,639)	(7,213)
Total change in cash	**(8,058)**	**(3,006)**
Cash and cash equivalents at beginning of the period	24,672	13,158
Cash and cash equivalents at end of the period	**16,614**	**10,152**

The $8.1 million decrease in cash during the three months ended March 31, 2022 resulted from the use of $20.6 million in cash to invest in drilling and facilities costs in the Hawler License Area, partially offset by $12.6 million in cash generated from operating activities. The cash balance was impacted by an additional month delay on outstanding payments during the first quarter of 2022; two revenue payments were received during the three months ended March 31, 2022 compared to three revenue payments received during the three months ended December 31, 2021.

Risks and uncertainties

The Group's ability to realize 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 realize 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 realize its assets and settle its liabilities and commitments during the 15-month period ending June 30, 2023.

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, 2022, had these changes occurred on January 1, 2022. These calculations are based on business conditions, production and sales volumes existing during the three months ended March 31, 2022. 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 realized price	$10.00/bbl	5,806	0.01
Change in crude oil sales volumes	1,000 bbl/d	3,235	0.01
Change in operating expenses	$1.00/bbl	851	0.00

The impact of the above changes may be compounded or offset by changes to other business conditions. 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.

Outstanding Share Data

At the date of this MD&A, 584,976,202 Common Shares are issued and outstanding. On September 1, 2021, 6,778,984 shares were issued under the Group's LTIP plan.

Upon vesting, FPL LTIP share awards made in October 2020 and August 2021 will result in the issuance of up to an additional 20,742,033 Common Shares in 2022 and 2023.

In March 2020 the Group issued warrants to acquire 33,149,000 Common Shares of the Company. The exercise price is $0.1633 per Common Share and the warrants expire on March 10, 2023.

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, 2022.

There were no repurchases of FPL's equity securities by the Company during the three months ended March 31, 2022.

Commitments and Contractual Obligations

The table below sets forth information relating to Forza Petroleum's commitments and contractual obligations as at March 31, 2022.

($ thousands)	Within One Year	From 1 to 5 Years	More than 5 Years	Total
Operating leases(1)	163	-	-	**163**
Other obligations(2)	2,479	9,915	17,354	**29,748**
Total	**2,642**	**9,915**	**17,354**	**29,911**

(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.

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)	2020			2021				2022
	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31
Revenue, net of royalties	2,370	12,983	14,104	21,049	26,974	28,776	34,057	48,660
Operating expense	(3,532)	(7,061)	(6,535)	(6,100)	(7,380)	(7,256)	(9,340)	(8,690)
Depletion	(1,636)	(4,666)	(8,997)	(8,234)	(8,953)	(8,788)	(12,209)	(12,399)
G&A	(2,185)	(3,368)	(1,200)	(1,081)	(929)	(1,479)	(2,168)	(1,740)
Profit / (Loss)	(3,854)	30,139	114,562	21,165	4,351	7,572	(22,818)	22,237
Earnings / (Loss) per basic and diluted share ($/share)	(0.01)	0.05	0.20	0.04	0.01	0.01	(0.04)	0.04
Cash generated from operating activities	3,079	3,622	8,601	4,207	14,557	13,911	21,386	12,581
Gross Production (bbl)	367,600	1,080,000	1,120,900	1,039,100	1,124,200	1,103,400	1,174,100	1,311,700
WI Production (bbl)	238,900	702,000	728,600	675,400	730,700	717,200	763,200	852,600
Gross Sales (bbl)	371,400	1,075,300	1,121,400	1,036,000	1,124,900	1,105,400	1,172,700	1,309,200
WI Sales (bbl)	241,400	698,900	728,900	673,400	731,200	718,500	762,300	851,000
Field operating costs(1)	(2,701)	(4,590)	(4,248)	(3,965)	(4,797)	(4,717)	(6,071)	(5,648)
Field operating costs(1) ($/bbl)	(11.19)	(6.57)	(5.83)	(5.89)	(6.56)	(6.57)	(7.96)	(6.64)
Brent price ($/bbl)	29.56	42.95	44.16	61.12	69.19	73.51	79.76	102.23
Sales price ($/bbl)	15.78	26.35	27.44	44.44	52.32	56.81	63.37	81.07
Capital additions(2)	406	2,029	10,912	6,017	9,311	10,007	20,454	19,066

Notes:

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

(2) Before non-cash additions / (credits) to the decommissioning calculation due to changes in estimates and drilling activity during the period.

Variations in revenue, royalties and taxes are attributable to changes in realized 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 to optimize economics.

General and administration costs have trended down as a result of a corporate restructuring in 2020 and the change of control of the Company in July 2020 which resulted in the discontinuation of a number of annual corporate fees payable to the former controlling shareholder. Recent variations in costs primarily relate to discretionary personnel compensation.

Profit for the three months ended September 30, 2020 includes a gain of $26.9 million recorded upon settlement of the borrowings. Profit for the three months ended December 31, 2020 includes an impairment reversal of $121.0 million, also relating to the Hawler License Area. Profit for the first quarter of 2021 was impacted by a $15.7 million gain resulting from the liquidation and consequent deconsolidation of OP Congo SA. Loss for the three months ended December 31, 2021 included impairment expense of $32.4 million, relating to the Hawler License Area.

During 2020 capital expenditures were restricted due to capital allocation priorities. The Group's drilling program resumed in the fourth quarter of 2020 and capital expenditures increased in the second quarter of 2021 with the addition of a second drilling rig.

Operating expenses and capital additions for the quarters covered include increased costs carried by the Group on behalf of partners and due to an increased number of wells, partially offset by cost savings following the Banan-4 well workover. Operating expenses for the three months ended December 31, 2021 also includes the cost of a non-rig workover.

Transactions with Related Parties

During the three months ended March 31, 2022, the Group acquired $110 thousand in technical services from an entity under common control for interpretation and processing of technical data (2021 - $8 thousand). The above transactions did not contain unusual commercial terms and the fees charged under the agreements were reasonable and not materially inconsistent with fees which would normally be associated with broadly comparable agreements. All amounts have been settled in full at March 31, 2022.

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, July 2021, October 2021, January 2022 and April 2022 the directors of FPL were awarded $0.1 million in cash as remuneration for services provided during the previous three months.

New Accounting Pronouncements, Policies, and Critical Estimates

New Pronouncements

New and amended standards adopted by the Group

Effective January 1, 2022, the Group adopted the following IFRS as issued and amended by the IASB:

New and Amended Standards	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3: Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 37: Onerous contracts – Cost of fulfilling a contract	January 1, 2022
Amendments to IAS 16: Property, Plant and Equipment Proceeds before Intended Use	January 2, 2022

The above new and amended standards have not had a material impact on the Financial Statements.

New and amended standards issued but not yet effective

At the date of this MD&A, 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
Amendments to IFRS 1: Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 8: Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 1: Disclosure of Accounting Policies	January 2, 2023

The above amended standards will not have a material impact on the Group’s Financial Statements.

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

The estimates and judgments related to the significant Going Concern assumptions are discussed in detail in Note 2b of the Financial Statements.

Carrying value of intangible exploration and evaluation assets

The amounts for intangible exploration and evaluation assets represent active exploration projects. If commercial reserves are discovered, the carrying value, less any impairment loss, of the relevant E&E assets is reclassified to property, plant and equipment. If commercial reserves are determined not to exist or if the asset is otherwise deemed to be impaired, the related capitalized costs are charged to expense. The process of determining whether there is an indicator for impairment or calculating the impairment requires critical judgment.

Management has made significant judgments related to the determination of whether impairment indicators are present in respect of the E&E asset. The E&E assets are discussed in detail in Note 5 of the Financial Statements.

Carrying value of Oil and Gas assets

Note 6 of the Financial Statements contains a discussion regarding the critical judgments and estimates used in determining the carrying value of oil and gas assets.

Carrying value of Decommissioning obligation

Estimating the decommissioning liabilities requires management to make significant estimates regarding the timing, cost and level of activity required to decommission the Group’s oil and gas assets at the end of their life. These estimates and assumptions are inherently uncertain as they relate to events that will occur in the future. Decommissioning liabilities are discussed in detail in Note 12 of the Financial Statements.

Financial Controls

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, summarized 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, 2022 that have materially affected, or are reasonably likely to materially affect, Forza Petroleum's ICFR.

Forward-Looking Information

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 and budgeted capital expenditure, financing and capital activities, expectations that cash on hand as of March 31, 2022 and cash receipts from net revenues from sales, exclusively made to the KRG at the tie-in to the Kurdistan Oil Export Pipeline, will allow the Group to fund its forecasted capital expenditures and operating and administrative costs through the end of June 2023, business and acquisition strategy and goals, opportunities, drilling and well workover plans, development plans and schedules and chance of success, results of exploration activities, 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 purchase consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, expectations that the COVID-19 virus outbreak will not restrict operations, the expected timing for settlement of liabilities, 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, business strategies and plans of management and Forza Petroleum's business partners, global sanctions imposed in relation to the Russian invasion of Ukraine will not have an impact on the Company and its assets and business, and disputes between the Kurdistan Regional Government and the federal government of Iraq, including as recently embodied in the judgment of the Iraqi Federal Supreme Court dated February 15, 2022 regarding the validity of the oil and gas law of the Kurdistan Regional Government, will not materially impact the Company, its interests in the Hawler production sharing contract or Hawler License Area operations. For more information about these assumptions and risks facing the Group, refer to FPL's Annual Information Form dated March 23, 2022, available at www.sedar.com and the Group's website at 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.

Glossary and Abbreviations

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

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

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 organizes 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 or PSC
A contractual agreement between a Contractor and a host government, whereby the Contractor bears certain defined exploration costs, risks, and development and operating 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