FORZA PETROLEUM

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
MARCH 31, 2023 AND 2022

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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, 2023 and 2022.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Three months ended March 31	
$000s	**Note**	**2023**	**2022**
Revenue		47,755	82,361
Royalties		(19,499)	(33,701)
Net revenue		**28,256**	**48,660**
Operating expense		(8,481)	(8,690)
Depreciation, depletion and amortization	**5,6**	(10,678)	(12,399)
General and administration expense		(1,574)	(1,740)
Other expense	**18**	(2,921)	(241)
Increase in expected credit loss against trade and other receivables	**8**	(3,920)	-
Change in fair value of purchase consideration	**11a**	(1,795)	(1,631)
(Loss) / Profit from operations		**(1,113)**	**23,959**
Finance income	**19**	520	-
Finance costs	**20**	(185)	(71)
Foreign exchange gain		7	17
(Loss) / Profit before income tax		**(785)**	**23,905**
Income tax expense	**17**	(1,035)	(1,668)
(Loss) / Profit for the period		**(1,820)**	**22,237**
Total Comprehensive (Loss) Income for the period		**(1,820)**	**22,237**
(Loss) / Earnings per share (basic and diluted) - $	**14**	**(0.00)**	**0.04**

Consolidated Statement of Financial Position

$000s	Note	March 31 2023	December 31 2022
Non-current assets			
Intangible assets	**5**	55,997	51,351
Property, plant and equipment	**6**	247,227	247,335
Deferred tax assets		250	247
		303,474	**298,933**
Current assets			
Inventories	**7**	9,560	12,969
Trade and other receivables	**8**	56,821	62,500
Other current assets	**9**	2,261	2,675
Cash and cash equivalents	**10**	79,591	71,103
		148,233	**149,247**
Total assets		**451,707**	**448,180**
Current liabilities			
Trade and other payables	**11**	100,913	97,102
		100,913	**97,102**
Non-current liabilities			
Retirement benefit obligation		1,511	1,394
Decommissioning obligation	**12**	20,286	18,947
		21,797	**20,341**
Total liabilities		**122,710**	**117,443**
Equity			
Share capital	**13**	1,365,467	1,365,467
Reserves	**15**	22,152	22,072
Accumulated deficit		(1,058,622)	(1,056,802)
Total equity		**328,997**	**330,737**
Total equity and liabilities		**451,707**	**448,180**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on May 9, 2023.

On behalf of the Board of Directors:

signed	*signed*
Vance Querio	Peter Newman
Director	Director

Consolidated Statement of Changes in Equity

$000s	Note	Share capital	Reserves	Accumulated deficit	Total equity
Balance at December 31, 2021		**1,363,221**	**23,301**	**(919,695)**	**466,827**
Profit for the period		-	-	22,237	22,237
Share based payment compensation	**15**	-	226	-	226
Balance at March 31, 2022		**1,363,221**	**23,527**	**(897,458)**	**489,290**
Loss for the period		-	-	(160,221)	(160,221)
Share based payment compensation	**15**	-	1,589	-	1,589
Shares issued for LTIP	**13, 15**	2,246	(2,246)	-	-
Cash issued for LTIP	**13, 15**	-	(798)	-	(798)
Gain on defined benefit obligation, net of tax		-	-	877	877
Balance at December 31, 2022		**1,365,467**	**22,072**	**(1,056,802)**	**330,737**
Loss for the period		-	-	(1,820)	(1,820)
Share based payment compensation	**15**	-	80	-	80
Balance at March 31, 2023		**1,365,467**	**22,152**	**(1,058,622)**	**328,997**

Consolidated Statement of Cash Flows

$000s	Note	Three months ended March 31 2023	2022
Operating activities			
(Loss) /Profit for the period		(1,820)	22,237
Adjustments for non-cash transactions	**16**	22,182	14,579
Changes in non-cash working capital	**16**	(1,802)	(24,235)
Net cash generated from operating activities		**18,560**	**12,581**
Investing activities			
Acquisition of intangible assets		(3,036)	-
Acquisition of property, plant and equipment		(7,036)	(20,639)
Net cash used in investing activities		**(10,072)**	**(20,639)**
Net cash used in financing activities		**-**	**-**
Net increase / (decrease) in cash and cash equivalents		**8,488**	**(8,058)**
Cash and cash equivalents at beginning of the period		71,103	24,672
Cash and cash equivalents at end of the period	**10**	**79,591**	**16,614**

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 Group has considered climate risk when preparing the unaudited condensed consolidated interim financial statements (the “Financial Statements”). In particular, it has been confirmed that there is no current or proposed legislation that would limit production or increase decommissioning costs in response to climate considerations. During the three months ended March 31, 2023 there were no climate risk related matters that impacted the Financial Statements.

The Financial Statements were authorized for issue by the Board of Directors on May 9, 2023.

2. Summary of significant accounting policies

a. Basis of preparation

The Company’s Financial Statements for the three months ended March 31, 2022 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim financial reporting” as issued by the International Accounting Standards Board (“IASB”). The Financial Statements should be read in conjunction with Forza Petroleum’s annual consolidated financial statements for the year ended December 31, 2022, 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, 2022 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 at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of critical accounting judgments and key sources of estimation uncertainty. 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, 2022 and have been updated in these Financial Statements as required.

The Financial Statements are presented in the US Dollars (“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 realization 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, 2023, 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. As at May 9, 2023, the Group has received payment for all Hawler oil sales made to the Kurdistan Regional Government (“KRG”) through September 2022.

In recent years, sales of the Group’s oil production have been exclusively through the Kurdistan Oil Export Pipeline. On March 25, 2023, the operator of the Kurdistan Oil Export Pipeline notified OP Hawler Kurdistan Limited, the Group’s operating subsidiary in the Kurdistan Region of Iraq (“KRI”), of a shutdown of the pipeline. The shutdown relates to a recent arbitration decision of the International Chamber of Commerce impacting exports by the KRG through the port of Ceyhan in Turkey. A statement from the Federal Government of Iraq indicates that exports from the port may resume only with the consent of the Federal Government of Iraq.

2. Summary of significant accounting policies (continued)

b. Going concern (continued)

Accordingly, and absent alternative sales channels, production from the Hawler license area was shut in. Public reports indicate that officials from the different governments involved are in talks to agree mechanisms that will apply and permit a restart of oil exports from the Kurdistan Region. These latest talks build on engagement in recent months to resolve several open issues between the KRG and the Federal Government of Iraq, including the development of a new oil and gas law.

Management views the shutdown of the Kurdistan Oil Export Pipeline as a temporary interruption to operations, however the timing of the restart of the Group's production and oil sales, and the price and payment terms applicable to such sales, is uncertain. This uncertainty casts significant doubt on the Group's ability to continue as a going concern.

Depending on the duration of the pipeline shutdown, the Group may need to raise capital to fund its operations. The requirement to raise additional capital may be adversely impacted by a lack of available financing, the duration of pipeline shutdown, the timing of settlement of outstanding receivables and any pricing changes as a result of new pricing mechanisms.

The Directors have carefully considered the forecast cash flows for the 15 months following March 31, 2023, and consequently they expect that the Group will have adequate resources 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 resumption of production operations, settlement of invoices for forecast oil sales and collection of outstanding receivables relating to oil sales since September 2022.

In preparing the above forecast, management has assumed the following:

i. Resumption of continuous production from May 15, 2023 with receipt of payment for future sales to be received 30 days after invoicing; and

ii. Collection of receivables from October 2022 to March 2023 oil sales to be settled over a period of 18 – 24 months;

iii. Sales resuming in May 2023 will be based on the pricing mechanism implemented by the Ministry of Natural Resources on September 1, 2022.

The assumptions above, which are largely outside of the control of the Directors, 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 planned operating expenditures and capital investments, 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.

2. Summary of significant accounting policies (continued)

c. New and amended standards adopted by the Group

Effective January 1, 2023, 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
Amendments to IAS 8: Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 1: Disclosure of Accounting Policies	January 1, 2023
Amendments to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	January 1, 2023
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IAS 1: Disclosure of Accounting Policies	January 1, 2023
Amendments to IFRS 8: Definition of Accounting Estimates	January 1, 2023
IFRS 17 Insurance Contracts, including Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 8: Definition of Accounting Estimates	January 1, 2023

The above amended standards have not had a material impact on these Financial Statements.

d. New and amended standards issued but not yet effective

At the date of authorization 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
Amendments to IAS 1: Classification of Assets and Liabilities as Current and Non-current	January 1, 2024
Amendments to IAS1: Non-Current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16: Lease Liability in a Sale and Leaseback	January 1, 2024

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, 2022 is applicable to these Financial Statements.

4. Joint arrangements

The Group has entered into joint arrangements to facilitate the exploration, development and production of oil and gas. No new joint arrangements have been entered into during the three months ended March 31, 2023. As at March 31, 2023, the Group was involved in the following joint arrangement:

License Area	Classification	Location	Participating interest and working interest
Hawler	Joint operation	Iraq – Kurdistan Region	65%

5. Intangible assets

$000s	Exploration & Evaluation costs	Computer Software	Total
Cost			
At January 1, 2022	**47,748**	**2,225**	**49,973**
Additions	1	-	1
At March 31, 2022	**47,749**	**2,225**	**49,974**
Additions	3,880	-	3,880
Decommissioning (Note 12)	(278)	-	(278)
At December 31, 2022	**51,351**	**2,225**	**53,576**
Additions	4,623	-	4,623
Decommissioning (Note 12)	23	-	23
At March 31, 2023	**55,997**	**2,225**	**58,222**
Accumulated amortization and impairment			
At January 1, 2022 and March 31, 2022	**-**	**2,225**	**2,225**
Amortization	-	-	-
At December 31, 2022 and March 31, 2023	**-**	**2,225**	**2,225**
Carrying amount			
At March 31, 2023	55,997	-	55,997
At December 31, 2022	51,351	-	51,351

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 carrying amounts of intangible E&E assets relate wholly to the Hawler license area (Ain al Safra sub-contract area) at both March 31, 2023 and December 31, 2022. 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 completed the Ain al Safra-1 and Ain al Safra-2 wells during the first quarter of 2023 and the results were inconclusive.

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, 2022	**1,007,844**	**3,550**	**1,011,394**
Additions	19,065	-	19,065
Decommissioning (1)	1,216	-	1,216
At March 31, 2022	**1,028,125**	**3,550**	**1,031,675**
Additions	35,959	16	35,975
Decommissioning (1)	(8,669)	-	(8,669)
At December 31, 2022	**1,055,415**	**3,566**	**1,058,981**
Additions	9,484	67	9,551
Decommissioning (1)	1,129	-	1,129
At March 31, 2023	**1,066,028**	**3,633**	**1,069,661**
Accumulated depreciation, depletion and impairment			
At January 1, 2022	**538,327**	**3,550**	**541,877**
Depletion	12,412	-	12,412
At March 31, 2022	**550,739**	**3,550**	**554,289**
Impairment (2)	220,584	-	220,584
Depreciation	-	2	2
Depletion	36,771	-	36,771
At December 31, 2022	**808,094**	**3,552**	**811,646**
Depreciation	-	7	7
Depletion	10,781	-	10,781
At March 31, 2023	**818,875**	**3,559**	**822,434**
Carrying amount			
At March 31, 2023	247,153	74	247,227
At December 31, 2022	247,321	14	247,335

(1) Non-cash changes to the decommissioning obligation (Note 12).

(2) As at December 31, 2022, the Group recorded a $220.6 million impairment expense relating to the Hawler license area. The impairment expense represents the difference between the estimated recoverable amount of the Hawler license area CGU and its carrying amount. The impairment expense was driven by lower reserve volumes and a higher discount rate used at December 31, 2022 compared to the previous impairment assessment done at December 31, 2021.

For the purpose of impairment assessments and testing in accordance with IAS 36, oil and gas assets are aggregated in CGUs. Determination of what constitutes a CGU is subject to management judgments and the circumstances. For the purposes of impairment assessments and testing of oil and gas assets, management has determined that the Hawler license area, excluding the Ain al Safra sub-contract area, which is a separate E&E asset (Note 5), constitutes the Group's single CGU which contains property, plant and equipment.

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

6. Property, plant and equipment (continued)

Impairment test at March 31, 2023

The recent shutdown of the Kurdistan Oil Export Pipeline and resulting shut-in of production from the Hawler license area (Note 2b) represents an indicator that the Hawler license area CGU's recoverable amount may differ from its carrying amount. Accordingly, management conducted a further impairment test as at March 31, 2023.

In performing the impairment test as at March 31, 2023, management used significant assumptions and estimates derived from and consistent with those incorporated in the proved plus probable oil reserves development case contained in the independent evaluator's report dated March 9, 2023 ("2P Development Case"), adjusted to reflect management's assumptions related to i) future crude oil sale prices, ii) near-term production, iii) suspension of the Group's 2023 capital investment program and iv) a revised 2023 operating expense forecast.

Expected cash inflows from oil sales were based on quoted Brent Crude forward contract prices for 2023 through 2025 less the average differential between Brent Crude forward contract prices and average Kurdistan blend (KBT) for March 2023 (the "KBT Discount"). Management's pricing assumptions beyond 2025 were benchmarked against the Brent Crude forward contract prices and longer-term Brent Crude pricing forecasts prepared as at April 1, 2023 by external firms, less the KBT Discount.

Expected cash inflows assume resumption of production and sales on May 15, 2023 and that all sales of crude oil from the Hawler license area continue to be completed through the Kurdistan Oil Export Pipeline, as required by the KRG. In accordance with management's best estimate of the terms most likely to govern future sales of Hawler license area crude oil, realized prices were referenced to management's estimated future Brent Crude prices, less the KBT Discount, further discounted by approximately $10/bbl for pipeline system tariffs and fees, and adjusted for differences in forecast API gravity and sulphur from standard KBT specifications.

Based on the above, expected cash inflows from oil sales were determined using the following estimated average nominal sales prices:

Period ending December 31,	Forward Contract Price ($/bbl)	Forward Contract Price less KBT differential ($/bbl)	External Forecast Brent Price ($/bbl)	External Forecast Brent Price less KBT differential ($/bbl)	Management Forecast Brent Price Used ($/bbl)	Management Forecast Realized Price Used ($/bbl)
2023	79.11	66.30	N/A	N/A	79.11	54.90
2024	75.73	62.92	N/A	N/A	75.73	51.74
2025	72.48	59.67	N/A	N/A	72.48	48.33
2026	69.85	57.04	81.39	68.58	73.31	50.66
2027	67.68	54.87	82.65	69.84	78.16	55.26
2028	N/A	N/A	84.29	71.48	84.29	61.22
2029	N/A	N/A	85.98	73.17	85.98	62.82
2030	N/A	N/A	87.70	74.89	87.70	64.41
Thereafter	N/A	N/A	2% escalation	2% escalation	2% escalation	2% escalation

(1) The 2% escalation is consistent with the increases after 2030 included in the external forecast Brent price.

Management applied the fair value less costs of disposal methodology to establish the recoverable value of the CGU. The fair value was estimated by calculating the net present value of expected after-tax cash flows associated with proved plus probable oil reserves as at March 31, 2023 using a 20% nominal after-tax discount rate (December 31, 2022 – 20%). The 20% discount rate is based on management's estimate of the cost of capital invested in upstream oil and gas assets in the Kurdistan Region of Iraq.

In measuring the fair value less costs of disposal of the Hawler license area CGU, management relied on i) observable inputs other than quoted prices for identical assets, and ii) inputs that are not publicly observable and are the result of management's estimates and judgments arising from analysis of internally generated data. Management's estimate of fair value less costs of disposal is classified as level 3 in the fair value hierarchy.

6. Property, plant and equipment (continued)

Application of the fair value less costs of disposal methodology using the assumptions described above indicated an estimated recoverable amount of the Hawler license area CGU as at March 31, 2023 to be $246 million, including the decommissioning asset, for which the associated liability of $20 million is separately recognized within non-current liabilities (Note 12). The estimated recoverable amount is not materially different to the carrying value of the asset at March 31, 2023 therefore no recovery of previously recorded impairment losses was recorded at March 31, 2023.

The net present value of expected cash-flows associated with the 2P Development Case, as adjusted, is dependent on the Group's independently evaluated estimation of proved plus probable oil reserves and to the production profile associated with the exploitation of those reserves.

The net present value of expected after-tax cash-flows associated with the proved plus probable oil reserves development case described above was subjected to sensitivities arising from changes in crude oil price forecasts, discount rates and the KBT Discount. The following table indicates the estimated carrying amounts as at March 31, 2023 that resulted from applying various crude oil price forecasts and discount rates:

	Discount rate		
Estimated carrying amount ($ millions) – based on	**15%**	**20%**	**25%**
Management Forecast prices less $10/bbl	147	161	178
Management Forecast prices, shown above	276	**246**	222
Management Forecast prices plus $10/bbl	354	317	287

7. Inventories

$000s	**March 31 2023**	**December 31 2022**
Oil inventory	464	256
Materials, net of provision	9,096	12,713
	9,560	**12,969**

The cost of oil inventory is expensed through production and depletion expenses in the period during which it is sold. As at March 31, 2023, the Group's working interest share of oil inventory was 18,300 bbl (December 31, 2022 – 8,700 bbl).

The Group has adjusted the carrying value of materials inventory to management's estimate of net realizable value. The provision at March 31, 2023 is $5.5 million (December 31, 2022: $5.6 million) and expense of $2.9 million has been included in other expense during the three months ended March 31, 2023 (March 31, 2022 – expense of $0.2 million) (Note 18).

No inventories have been pledged as security during the period.

8. Trade and other receivables

$000s	**March 31 2023**	**December 31 2022**
Revenue receivables	60,657	62,433
Expected credit loss provision	(3,920)	-
Other receivables	84	67
	56,821	**62,500**

Trade and other receivables are denominated in US Dollars and the carrying values are a reasonable approximation of the fair value.

As at May 9, 2023, no amounts have been collected relating to the revenue receivable balance outstanding at March 31, 2023.

8. Trade and other receivables (continued)

$000s	Three months ended March 31, 2023	Year ended December 31, 2022
Expected credit loss, beginning of period	-	-
Movement in expected credit loss	(3,920)	-
Expected credit loss, end of period	**(3,920)**	**-**

9. Other current assets

$000s	March 31 2023	December 31 2022
Prepaid charges and other current assets	949	919
Deposits	1,312	1,756
	2,261	**2,675**

10. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits with an original maturity of three months or less. As at March 31, 2023, $60.2 million included in this balance was held in a one-month term account (December 31, 2022: $30 million and $20 million were held in one and three-month term accounts, respectively). The carrying amounts are reasonable approximations of the fair value.

11. Trade and other payables

$000s	March 31 2023	December 31 2022
Trade accounts payable	8,723	7,211
Other payables and accrued liabilities	15,954	15,450
Purchase consideration (Note 11a)	76,236	74,441
Total trade and other payables	**100,913**	**97,102**

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

a. Purchase consideration

During 2011, the Group acquired OP Hawler Kurdistan Limited ("OPHKL") 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.

The balance of unpaid principal and accrued interest owed to the seller of OPHKL was $76.2 million, as at both March 31, 2023 and December 31, 2022. Payment of the amount owed is subject to receipt by the Group from the seller of OPHKL of a payment direction and appropriate documentation to comply with settlement regulations.

12. Decommissioning obligation

The Group has an obligation 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, 2023, management has made significant judgments 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, inter alia, upon future oil prices, which are inherently uncertain.

Decommissioning obligations, all of which relate to the Hawler license area in the Kurdistan Region of Iraq, are forecast to be incurred in 2038 at the end of the development period.

During the year ended December 31, 2022, the Group revised the cost estimates used to calculate the decommissioning obligation based on an updated engineering assessment of resources required for decommissioning activities, and the latest contractual prices for equipment and services. The new assessment of the costs involved resulted in an increase of $1.5 million from the previous assessment. The cost estimates used are based on current contract values.

The estimated net present value of the decommissioning obligation at March 31, 2023 is $20.3 million (December 31, 2022 - $18.9 million) based on the Group's undiscounted liability of $48.6 million (December 31, 2022 - $48.2 million).

The assumed inflation rate used in the calculation to determine the carrying value of the decommissioning obligation was reviewed during the three months ended March 31, 2023 and left unchanged at 2.1% (December 31, 2022: 2.1%). The inflation rate is referenced to the World Bank inflation development indicator for Iraq.

The assumed discount rate was also reviewed during the three months ended March 31, 2023 and was updated to 5.7% (December 31, 2022: 6.0%). The discount rate is determined by adding the US risk-free rate plus the inflation rate.

$000s	**Three months ended March 31, 2022**	**Year ended December 31, 2022**
Decommissioning obligation, beginning of the period	**18,947**	**26,213**
Change in cost estimates	-	1,520
Change in inflation rate	-	6,073
Change in discount rate	886	(16,540)
Property development additions	268	1,216
	20,101	**18,482**
Accretion expense (Note 20)	185	465
Decommissioning obligation, end of the period	**20,286**	**18,947**

If a 10% increase were applied to the gross costs used in the calculation, the net present value of the decommissioning obligation at March 31, 2023 would increase by $2.0 million. If a 1% increase to the discount rate were applied, the net present value of the decommissioning obligation at March 31, 2023 would decrease by $2.8 million.

13. Share capital

a. Issued common shares

	Number of shares	**Share capital**
		$000s
At January 1, 2022 and March 31, 2022	**584,976,202**	**1,362,221**
Issue of shares for LTIP	15,330,155	2,246
At December 31, 2022 and March 31, 2023	**600,306,357**	**1,365,467**

The Company has unlimited authorized share capital at March 31, 2023.

13. Share capital (continued)

2022 share capital transactions

On September 1, 2022, the Company issued 15,330,155 common shares to employees under the Group's Long Term Incentive Plan ("LTIP").

b. Warrants

In March 2020, in connection with a loan (since fully settled), the Group issued warrants to acquire 33,149,000 common shares of the Company. The warrants expired without exercise on March 10, 2023.

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

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

	Three months ended March 31	
	2023	**2022**
(Loss) / Profit for the period attributable to equity holders ($000s)	(1,820)	22,237
Weighted average number of common shares for basic earnings per share (1)	600,306,357	584,976,202
Dilutive impact of unexercised warrants (2)	-	33,149,000
Weighted average number of common shares for diluted earnings per share (1)	600,306,357	618,125,202
Basic (loss)/ earnings per share - $	**(0.00)**	**0.04**
Diluted (loss)/earnings per share - $	**(0.00)**	**0.04**

(1) The unvested LTIP shares are excluded as the vesting conditions have not yet been met.
(2) The warrants expired without exercise on March 10, 2023 (Note 13b)

15. Reserves

$000s	**Share based payments**	**Other Reserves**	**Total reserves**
At January 1, 2022	**20,658**	**2,643**	**23,301**
Share based payment transactions	226	-	226
At March 31, 2022	**20,884**	**2,643**	**23,527**
Share based payment transactions	1,589	-	1,589
Issue of shares for LTIP	(3,044)	-	(3,044)
At December 31, 2022	**19,429**	**2,643**	**22,072**
Share based payment transactions	80	-	80
At March 31, 2023	**19,509**	**2,643**	**22,152**

16. Supplemental cash flow information

a. Adjustments for non-cash transactions

$000s	Three months ended March 31 2023	2022
Revenue	4,410	-
Royalties	(1,889)	-
Depreciation, depletion and amortization	10,678	12,399
Share based compensation	45	116
Unrealized foreign exchange (gains) / losses	2	(8)
Income tax benefit	(3)	(1)
Finance costs	185	71
General and administration	107	103
Increase in fair value of purchase consideration	1,795	1,631
Increase in expected credit loss against trade and other receivables	3,920	-
Other expense	2,932	268
Items not involving cash	**22,182**	**14,579**

b. Changes relating to non-cash working capital

$000s	Three months ended March 31 2023	2022
Inventories	599	394
Trade and other receivables	(763)	(25,200)
Other current assets	414	(417)
Trade and other payables	2,024	(677)
Changes relating to non-cash working capital	**2,274**	**(25,900)**

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

$000s	Three months ended March 31 2023	2022
Operations	(1,802)	(24,235)
Investing - E&E	2,495	-
Investing - PP&E	1,581	(1,665)
Changes relating to non-cash working capital	**2,274**	**(25,900)**

c. Other cash flow information

$000s	Three months ended March 31 2023	2022
Cash income taxes paid (net)	82	18

17. Income tax expense

$000s	Three months ended March 31 2023	2022
Current income tax expense	1,038	1,670
Deferred tax on LTIP shares	(3)	(2)
Income tax expense	**1,035**	**1,668**

17. Income tax expense (continued)

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, 2023, income taxes related to oil sales in the KRI in the amount of $1.0 million (2022 - $1.7 million) were deemed to be collected by the government through its allocation of Profit Oil under the Hawler PSC. Cumulatively, since the inception of Hawler production in 2013, such income taxes deemed to have been collected by the KRG through its allocation of Profit Oil and related to oil sales in the KRI amount to $19.4 million.

18. Other expense

The components of other expense for the periods indicated are as follows:

		Three months ended March 31	
$000s	**Note**	**2023**	**2022**
Increase in materials inventory provision	**7**	(2,921)	(241)
Other expense		**(6,841)**	**(241)**

19. Finance income

Finance income is composed of interest earned on short-term deposits of three months or less (Note 10). The interest rate earned on these deposits during the three months ended March 31, 2023 ranged between 4.3% and 4.7%.

20. Finance costs

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

		Three months ended March 31	
$000s	**Note**	**2023**	**2022**
Accretion of decommissioning obligation	**12**	185	71
Finance costs		**185**	**71**

21. Segment information

The Group has a single class of business which is to acquire, explore, develop and produce oil from oil and gas assets. There is one geographic operating segment, for which information is distinguished from that for corporate activities as follows:

For the three months ended March 31, 2023 **$000s**	**Middle East**	**Corporate**	**Total**
Revenue	47,755	-	47,755
Royalty	(19,499)	-	(19,499)
Net revenue	**28,256**	**-**	**28,256**
Operating expense	(8,481)	-	(8,481)
Depreciation, depletion and amortization	(10,672)	(6)	(10,678)
General and administration expense	(915)	(659)	(1,574)
Other expense	(2,921)	-	(2,921)
Increase in expected credit loss against trade and other receivables	(3,920)	-	(3,920)
Change in fair value of contingent consideration	(1,795)	-	(1,795)
Segment result	**(448)**	**(665)**	**(1,113)**
Finance costs			(185)
Finance income			520
Foreign exchange gain			(7)
Loss before income tax			**(785)**
Income tax expense			(1,035)
Loss for the period			**(1,820)**
Capital additions[(1)]	14,107	67	14,174
Segment assets as at March 31, 2023	450,567	1,140	451,707
Segment liabilities as at March 31, 2023	119,775	2,935	122,710

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

For the three months ended March 31, 2022 **$000s**	**Middle East**	**Corporate**	**Total**
Revenue	82,361	-	82,361
Royalty	(33,701)	-	(33,701)
Net revenue	**48,660**	**-**	**48,660**
Operating expense	(8,690)	-	(8,690)
Depreciation, depletion and amortization	(12,399)	-	(12,399)
General and administration expense	(624)	(1,116)	(1,740)
Other expense	(241)	-	(241)
Change in fair value of contingent consideration	(1,631)	-	(1,631)
Segment result	**25,075**	**(1,116)**	**23,959**
Finance costs			(71)
Foreign exchange gain			17
Loss before income tax			**23,905**
Income tax expense			(1,668)
Loss for the period			**22,237**
Capital additions[(1)]	19,066	-	19,066
Segment assets as at March 31, 2022	610,328	2,196	612,524
Segment liabilities as at March 31, 2022	120,126	3,108	123,234

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

21. Segment information (continued)

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

$000s	March 31 2023	December 31 2022
Iraq (Kurdistan Region)	303,150	298,671
Other	324	262
	303,474	**298,933**

22. Commitments

a. Contractual obligations

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

$000s	March 31 2023	December 31 2022
No later than one year	2,479	2,479
One to five years	9,915	9,915
Greater than five years	22,309	22,309
	34,703	**34,703**

The commitments noted above reflect the contractually committed amounts relating to the Group's planned execution of expected and contracted exploration and development activities as at March 31, 2023.

b. Short-term commitments – Group company as lessee

The Group has no material lease commitments and consequently has not recognized any right-of-use assets or corresponding liabilities. Short-term lease obligations do not exceed $0.4 million and contain no purchase options.

23. 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 recognized 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.