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

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2021 AND 2020

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

*The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the consolidated financial statements of Forza Petroleum Limited ("**FPL**" or, the "**Company**") and its subsidiaries for the three and six months ended June 30, 2021 and 2020 (the "**Financial Statements**"), which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").*

The date of this MD&A is August 10, 2021.

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

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

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

Readers should refer to the "Forward-Looking Information" advisory on page 17. Additional information relating to FPL, including FPL's Annual Information Form dated March 23, 2021, 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 12,400 bbl/d (working interest 8,000 bbl/d) in Q2 2021;
- Average gross (100%) oil production of 11,000 bbl/d (working interest 7,100 bbl/d) for July 2021, down from Q2 2021 primarily as a result of shut-ins at the Zey Gawra field to replace leased processing facilities with lower cost facilities;
- Interventions underway to optimize production from the Banan-8 well completed in the Cretaceous reservoir of the Banan field east of the Great Zab river in May 2021;
- The Zey Gawra-6 horizontal well targeting the Cretaceous reservoir of the Zey Gawra field was spudded June 1, 2021. The well reached total depth in recent weeks and facilities are being mobilized to undertake clean-up and evaluation of the well;
- Equipment had been mobilized to the location of the previously drilled Demir Dagh-2 well and drilling is underway of a horizontal sidetrack that will target the Cretaceous reservoir, the Group's fourth well of the year;
- The worldwide outbreak of the COVID-19 virus, including within Iraq, has not significantly impacted operations. The Group has taken precautions to protect its employees and contractors but does not at this time expect that the virus outbreak will restrict operations.

Financial Highlights and Outlook

Liquidity outlook

The Group expects cash on hand as of June 30, 2021 and cash receipts from net revenues from export sales exclusively through the Kurdistan Oil Export Pipeline will allow it to fund its forecasted capital expenditures and operating and administrative costs through the end of September 2022. The contingent consideration obligation is anticipated not to become payable before March 2023. Refer to the "Contingent Consideration" section of this M&DA for further information.

Financial performance

The following table contains financial performance highlights for the three and six months ended June 30, 2021 and June 30, 2020.

($ thousands unless otherwise stated)	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue	45,674	4,232	81,402	36,091
Cash generated from operating activities	14,557	3,079	15,890	9,884
Cash generated from operating activities per basic and diluted share ($/share)	0.03	0.00	0.03	0.01
Profit / (Loss) for the period	4,351	(3,854)	25,516	(253,444)
Earnings / (Loss) per basic and diluted share ($/share)	0.01	(0.01)	0.04	(0.46)
Average sales price ($/bbl)	52.32	15.78	48.55	29.97
Field production costs[(1)] ($/bbl)	6.56	11.19	6.24	7.91
Operating expense ($/bbl)	10.09	14.63	9.60	10.34
Field Netback[(2)] ($/bbl)	18.95	(3.48)	17.38	6.73
Forza Petroleum Netback[(2)] ($/bbl)	25.56	(5.17)	23.43	7.62
Capital additions[(3)]	9,311	406	15,328	5,112

Notes:

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

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

(3) Before non-cash additions / (credits) relating to the change in estimates used to calculate the decommissioning calculation.

Revenue and cash receipts

Revenue of $45.7 million was recorded for the three months ended June 30, 2021. Included in revenue is $38.3 million realized on the sale of 731,200 bbl (WI) of crude oil (average $52.32/bbl) and $7.4 million related to the recovery of costs carried on behalf of partners. Revenue from sales increased by $34.4 million versus the three months ended June 30, 2020 due to a 232% increase in realized average sales price and a 203% increase in sales volumes. The increase in sales volumes versus the earlier period reflects the temporary shut-in of Banan production during the second quarter of 2020. Overall revenue was $41.4 million higher than for the three months ended June 30, 2020 due also to a $7.0 million increase in recovery of carried costs.

Revenue of $81.4 million was recorded for the six months ended June 30, 2021. Included in revenue is $68.2 million ($48.55/bbl) realized on the sale of 1,404,500 bbl (WI) of crude oil and $13.2 million related to the recovery of costs carried on behalf of partners. Revenue for the six months ended June 30, 2021 increased by $45.3 million compared to the same period in 2020. The increase is attributable to a 62% increase in realized sales price and a 30% increase in sales volumes.

All sales during the six months ended June 30, 2021 were made via the Kurdistan Oil Export Pipeline.

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

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

In December 2020, the Prime Minister communicated that any amounts due to the government, both current unpaid balances as well as future liabilities arising, could be set-off against the overdue receivables. Further, beginning with January 2021 oil sales, monthly payments are now being made by the KRI Ministry of Natural Resources ("**MNR**") against the past due receivables. The monthly additional payment was initially equal to gross sales barrels from the Hawler License Area for the applicable month multiplied by 50% of the amount by which the average dated Brent price for the month exceeds $50/bbl.

In May 2021, the Company received further communication from the Prime Minister that starting with the payment of March 2021 oil sales, the monthly payment against past due receivables would be equal to gross sales barrels from the Hawler license area for the applicable month multiplied by 20% of the amount by which the average dated Brent price for the month exceeds $50/bbl.

After the agreed set-off with the KRI Ministry of Natural Resources and partial payments received up to June 30, 2021, the remaining past due receivable has been reduced to $7.5 million, which is now forecast to be settled in full by December 31, 2021.

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

Field production costs and netbacks

Field production costs during the second quarter of 2021 amounted to $4.8 million ($6.56/bbl) in comparison to $2.7 million ($11.19/bbl) during the second quarter of 2020, representing a 41% decrease on a per barrel basis. The per barrel decrease reflects a 206% increase in production volumes but only a $2.1 (78%) increase in absolute costs.

Field Netback of $18.95/bbl for the three months ended June 30, 2021 has improved significantly from negative $3.48/bbl for the second quarter of 2020. The primary drivers for increased Field Netbacks from the second quarter of 2020 have been higher average sales prices combined with a decrease in per barrel field production costs.

Cash generated from operating activities

Cash generated from operating activities for the second quarter of 2021 was $14.6 million compared to $3.1 million during the same period in 2020. The increase mainly relates to higher crude oil sales revenue received during the period, partially offset by an increase in cash payments relating to operating trade and other payables.

Profit / Loss

Profit for the three months ended June 30, 2021 was $4.4 million compared to a loss of $3.9 million during the second quarter of 2020. The variance in profit/loss for three months ended June 30, 2021 in comparison to the same period in 2020 is primarily attributable to i) a $24.6 million increase in net revenue resulting from increased realized sales price and recovery of carried costs, and higher sales volumes; ii) a $2.6 million reduction in financing costs following the settlement of a loan facility in July 2020; and iii) a $1.3 million expense relating to pension curtailment in the second quarter of 2020 with no similar expense in 2021. These positive factors have been partially offset by i) an increase of $7.3 million in depletion recorded due to higher production volumes in 2021 combined with a higher depletion expense per barrel; ii) a $3.9 million increase in operating expenses which had been temporarily reduced due to the shut-in of the Banan field during the second quarter of 2020; iii) a $3.5 million reversal of the materials inventory provision during the second quarter of 2020; and iv) a $4.2 million non-cash charge resulting from the increase in the fair value of the contingent consideration obligation potentially due on the Hawler License Area compared to a $1.6 million charge in the three months ending June 30, 2021.

Profit for the six months ended June 30, 2021 was $25.5 million compared to a loss of $253.4 million during the second quarter of 2020. The variance in profit/loss for six months ended June 30, 2021 in comparison to the same period in 2020 is primarily attributable to i) a $238.2 million impairment recorded during the six months ended June 30, 2020 relating to the Hawler License Area; ii) a $27.8 million increase in net revenue resulting from increased realized sales price and recovery of carried costs, and higher sales volumes; iii) a $15.7 million gain recorded during the six months ended June 30, 2021 relating to the deconsolidation of OP Congo SA; iv) a $3.4 million decrease to the trade and other receivables provision during the six months ended June 30, 2021 compared to a $4.8 million increase to the provision during the same period in 2020; v) a $5.0 million reduction in financing costs following the settlement of a loan facility in July 2020; and iv) a $1.5 million decrease to the materials inventory provision during the six months ended June 30, 2021 compared to a $4.8 million increase to the provision during the same period in 2020. These positive factors have been partially offset by i) an $8.7 million non-cash charge resulting from the increase in the fair value of the contingent consideration obligation potentially due on the Hawler License Area compared to a $0.3 million gain in the comparable six months ending June 30, 2020; ii) an increase of $8.0 million in depletion recorded due to higher production volumes in 2021 combined with a higher depletion expense per barrel; and iii) a $2.3 million increase in operating expenses mainly due to the shut-in of the Banan field during the second quarter of 2020.

Capital additions

During the second quarter of 2021, the Group recorded capital additions of $9.3 million, including $8.5 million invested in drilling activities in the Banan and Zey Gawra fields. Additional amounts of $0.7 million and $0.1 million were also recorded on facilities and directly attributable support costs, respectively.

During the six months ended June 30, 2021, the Group recorded capital additions of $15.3 million, including $13.9 million invested in drilling activities in the Banan and Zey Gawra fields. Additional amounts of $1.2 million and $0.2 million were also recorded on facilities and directly attributable support costs, respectively.

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Financial position

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

($ thousands)	June 30, 2021	December 31, 2020
Total cash and cash equivalents	18,237	13,158
Working Capital	(30,547)	(1,846)
Total assets	594,789	605,412
ZOG Interim Credit Facility	5,000	5,000
Total long-term liabilities	25,667	97,877

The cash and cash equivalents balance of $18.2 million as at June 30, 2021 increased from $13.2 million at December 31, 2020. This increase is due to $15.9 million in cash generated from operating activities, partially offset by $10.8 million in cash used in investing activities.

Working capital weakened from negative $1.8 million at December 31, 2020 to negative $30.5 million at June 30, 2021 due to the reclassification of the contingent consideration to current liabilities during the first quarter of 2021; partially offset by a $29.5 million decrease in the trade and other payables balance.

The negative working capital balance at June 30, 2021 includes the contingent consideration obligation which amounts to $65.3 million. Subsequent to June 30, 2021, following a 'Forbearance Agreement' concluded with the seller of OP Hawler Kurdistan Limited ("**OPHKL**"), the contingent consideration obligation is now anticipated not to become payable before March 2023. Refer to the "Contingent Consideration" section of this M&DA for further information.

The total assets balance decreased to $594.8 million at June 30, 2021 from $605.4 million at December 31, 2020. This change is primarily due to i) $14.6 million and $1.1 million non-cash credits included in intangible assets and PP&E, respectively, arising from changes in estimates used to calculate the decommissioning obligation, offset by profits retained for the period of $25.5 million.

The $72.2 million decrease in total long-term liabilities from December 31, 2020 is due to the reclassification of the contingent consideration as a current liability within Trade and other payables, combined with a $15.5 million decrease to the decommissioning obligation due to changes in estimates used to calculate the liability.

The undiscounted balance of principal and accrued interest potentially owed under the contingent consideration obligation to the vendor of the Hawler License Area as at June 30, 2021 was $76.6 million (December 31, 2020 - $76.4 million). Refer to the "Contingent Consideration" section of this M&DA for further information.

Second half of 2021 capital expenditure re-forecast

The Group's re-forecasted capital expenditures for 2021 are $62 million, increased from the budget of $51 million. Capital expenditures for the second half of 2021 are forecasted to be $45 million. The following table summarizes the Group's second half of 2021 forecasted capital expenditure program.

Activity	Second half of 2021 Forecast
Drilling	29
Facilities	7
License maintenance costs and other	9
Capex Total	**45**

For the balance of 2021, the Group plans to complete the Ain al Safra-2 well and drill four additional wells, including at least one well in the Zey Gawra field targeting the Tertiary reservoir and a well in the Demir Dagh field targeting the Cretaceous reservoir. The Group also plans to install a gathering system to eliminate trucking in the western part of the Hawler license area to reduce environmental impact and operating expense, and to undertake other facilities and maintenance projects.

Business Environment

Following various destabilizing geopolitical events impacting the KRI over several years, relative political stability has supported conditions where the Group has been able to continue its activities in the KRI. However, the recent impact of the COVID-19 pandemic and oil price volatility compounds uncertainty associated with unresolved political disputes, and their eventual impact on the Group's operations may be significant and remains unclear. 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.

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

Uncertainty related to global, social, political, and economic conditions and the resulting changes in global oil supply chains and infrastructure investment contribute to volatility in the price of crude oil. During 2020 the global response to the spread of COVID-19 decreased global economic activity and, correspondingly, the demand for and price of crude oil. There has been a sharp recovery in both global economic activity and especially in the oil price in the first half of 2021. 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 international markets through the Kurdistan Oil Export Pipeline. Although management has not experienced, and does not expect, restrictions on its ability to access pipeline capacity, Forza Petroleum is not aware of official allocations of export pipeline capacity and is uncertain as to the extent to which its future production will continue to able to be sold through this export pipeline. Commercial arrangements currently in place to sell oil produced from the Hawler License Area may not continue to be in effect.

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

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

Operations Review

The following table summarizes production and sales data for the three months ended June 30, 2021, March 31, 2021, and June 30, 2020 and for the six months ended June 30, 2021 and June 30, 2020:

	Three months ended			Six months ended	
	June 30, 2021	March 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Gross (100%) Production (bbl)	1,124,200	1,039,100	367,600	2,163,300	1,663,000
Gross (100%) Production per day (bbl/d)	12,400	11,500	4,000	12,000	9,100
WI Production (bbl)	730,700	675,400	238,900	1,406,200	1,081,000
WI Production per day (bbl/d)	8,000	7,500	2,600	7,800	5,900
WI sales (bbl)	731,200	673,400	241,400	1,404,500	1,084,300
WI sales per day (bbl/d)	8,000	7,500	2,700	7,800	6,000

Production and sales

Gross (100%) oil production for the three months ended June 30, 2021 was 1,124,200 bbl representing an average rate of 12,400 bbl/d. The Group's Working Interest share of oil production during this period was 730,700 bbl representing an average rate of 8,000 bbl/d.

Gross (100%) oil production for the six months ended June 30, 2021 was 2,163,300 bbl representing an average rate of 12,000 bbl/d. The Group's Working Interest share of oil production during this period was 1,406,200 bbl representing an average rate of 7,800 bbl/d.

The Group recognized revenue on the sale of 731,200 bbl (Working Interest) and 1,404,500 bbl (Working Interest) of oil during the three and six months ended June 30, 2021, respectively.

Crude oil sale prices

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

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

	2021		2020				2019	
	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
Brent average price ($/bbl)	69.19	61.12	44.16	42.95	29.56	50.10	63.08	62.00
Realized sales price ($/bbl)	52.32	44.44	27.44	26.35	15.78	34.03	47.32	46.05

Netbacks

The following table summarizes the Field Netback and Forza Petroleum Netback for the three months ended June 30, 2021 and 2020:

	Three months ended June 30, 2021		Three months ended June 30, 2020	
	($ thousands)	($/bbl)	($ thousands)	($/bbl)
Oil sales	38,258	52.32	3,810	15.78
Royalties	(18,700)	(25.57)	(1,862)	(7.71)
Field production costs(1)	(4,797)	(6.56)	(2,701)	(11.19)
Current taxes	(906)	(1.24)	(86)	(0.36)
Field Netback(2)	**13,855**	**18.95**	**(839)**	**(3.48)**
Recovery of Carried Costs	7,416	10.14	422	1.75
Partner share of production costs	(2,583)	(3.53)	(831)	(3.44)
Forza Petroleum Netback(2)	**18,688**	**25.56**	**(1,248)**	**(5.17)**

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

On a per barrel basis, Field Netback has increased to $18.95/bbl for the three months ended June 30, 2021 from negative $3.48/bbl for the three months ended June 30, 2020. This variance is attributable to an increase in the realized sales prices and sales volumes combined with a decrease in field production costs on a per barrel basis, partially offset by increased royalties due to an increase in realized sales prices and sales volumes.

The following table summarizes the Field Netback and Forza Petroleum Netback for the six months ended June 30, 2021 and 2020:

	Six months ended June 30, 2021		Six months ended June 30, 2020	
	($ thousands)	($/bbl)	($ thousands)	($/bbl)
Oil sales	68,185	48.55	32,492	29.97
Royalties	(33,379)	(23.77)	(15,882)	(14.65)
Field production costs(1)	(8,762)	(6.24)	(8,573)	(7.91)
Current taxes	(1,630)	(1.16)	(737)	(0.68)
Field Netback(2)	**24,414**	**17.38**	**7,300**	**6.73**
Recovery of Carried Costs	13,217	9.41	3,599	3.32
Carried production costs	(4,718)	(3.36)	(2,637)	(2.43)
Forza Petroleum Netback(2)	**32,913**	**23.43**	**8,262**	**7.62**

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

Field Netback for the six months ended June 30, 2021 of $24.4 million incorporates field production costs of $8.8 million. On a per barrel basis, Field Netback has increased to $17.38/bbl for the six months ended June 30, 2021 from $6.73/bbl for the six months ended June 30, 2020. This variance is attributable to an increase in the realized sales prices combined with lower per barrel field production costs, partly offset by increased royalties due to an increase in the realized sales prices.

Hawler license operation, appraisal and early production

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

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

Interventions are underway to optimize production from the Banan-8 well completed in the Cretaceous reservoir of the Banan field east of the Great Zab river in May 2021.

The Zey Gawra-6 horizontal well targeting the Cretaceous reservoir of the Zey Gawra field was spudded June 1, 2021. The well reached total depth in recent weeks and facilities are being mobilized to undertake clean-up and evaluation of the well.

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

Capital Additions

The following table summarizes the capital additions incurred by activity during the three and six months ended June 30, 2021 and June 30, 2020:

	Three months ended		Six months ended	
($ thousands)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Middle East				
Drilling	8,521	(219)	13,907	3,703
Facilities	725	359	1,187	839
Studies, license, and support	65	81	234	172
Sub-Total	**9,311**	**221**	**15,238**	**4,714**
Decommissioning(1)	(16,783)	4,663	(15,775)	4,665
Total Middle East	**(7,472)**	**4,884**	**(447)**	**9,373**
Total West Africa	**-**	**201**	**-**	**397**
Corporate	**-**	**(16)**	**-**	**1**
Total capital additions	**(7,472)**	**5,069**	**(447)**	**9,777**

Note:

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

Middle East

During the three months ended June 30, 2021, the Group invested $9.3 million in the Hawler License Area; drilling costs of $4.5 million and $3.5 million were incurred on the Banan-8 Cretaceous well and Zey Gawra-6 Cretaceous well, respectively. Additional drilling costs of $0.5 million were incurred in preparation for drilling future wells. Expenditure of $0.7 million on facilities and $0.1 million on studies and support were also incurred in the period.

The Group recorded capital additions of $15.2 million during the six months ended June 30, 2021; comprising $4.8 million on the Banan-8 Cretaceous well, $4.4 million on the Zeg Gawra-5 Tertiary well and $3.9 million on the Zeg-6 Cretaceous well. Expenditure of $1.2 million on facilities and $1.0 million on preparation for drilling, studies and support were also incurred in the period.

At June 30, 2021, the Group revised the cost estimates used to calculate the decommissioning obligation based on an updated engineering assessment of resources, and the latest contractual prices for equipment and services, required for decommissioning activities. Updated inflation and discount rates were also applied to the calculation. As a result of these changes in estimates, a non-cash credit of $16.8 million was recorded during the three months ended June 30, 2021.

Cost Pools

The Cost Pool for the Hawler License Area, which is available for recovery through future oil sales from the License Area, as at June 30, 2021, is detailed in the table below:

License Area	Location	Gross Cost Pool	Group Working Interest Cost Pool	Partner costs carried by Forza Petroleum	Costs recovered at June 30, 2021 through cost oil	Group share of recoverable costs available[(1)(2)]
		($ million)	($ million)	($ million)	($ million)	($ million)
Hawler	Iraq – Kurdistan Region	988.7	490.0	216.1	(223.6)	482.5

Notes:
(1) The Cost Pool balance is subject to audit by relevant government entities.
(2) Forza Petroleum share of costs available for future recovery through the sale of cost oil.

Property, plant and equipment and intangible assets

The capital additions and decommissioning charges (credits) described in the sections above, net of depletion, depreciation and amortisation ("**DD&A**"), have resulted in the following movements in intangible asset and PP&E balances during the three months ended March 31, 2021 and June 30, 2021:

($ thousands)	Exploration and Evaluation Assets	Other Intangible Assets	Total Intangible Assets
As at January 1, 2021	**48,883**	**10**	**48,893**
Capital additions	3	-	3
DD&A	-	(3)	(3)
As at March 31, 2021	**48,886**	**7**	**48,893**
Capital additions	2	-	2
DD&A	-	(4)	(4)
Decommissioning	(1,143)	-	(1,143)
As at June 30, 2021	**47,745**	**3**	**47,748**

($ thousands)	Oil & Gas assets	Furniture and fixtures	Total PP&E
As at January 1, 2021	**506,921**	**59**	**506,980**
Capital additions	6,014	-	6,014
DD&A	(8,257)	(20)	(8,277)
Decommissioning	1,008	-	1,008
As at March 31, 2021	**505,686**	**39**	**505,725**
Capital additions	9,309	-	9,309
DD&A	(8,948)	(19)	(8,967)
Decommissioning	(15,640)	-	(15,640)
As at June 30, 2021	**490,407**	**20**	**490,427**

Financial Results

Revenue

The following table summarizes Forza Petroleum's revenue for the three months and six months ended June 30, 2021 and 2020. All oil sold during each of the below periods was produced at the Hawler License Area.

($ thousands)	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Oil Sales	38,258	3,810	68,185	32,492
Recovery of Carried Costs	7,416	422	13,217	3,599
Revenue	**45,674**	**4,232**	**81,402**	**36,091**

Revenue of $45.7 million was recorded for the three months ended June 30, 2021. Included in revenue is $38.3 million ($52.32/bbl) realized on the sale of 731,200 bbl (WI) of crude oil and $7.4 million related to the recovery of costs carried on behalf of partners. Revenue from sales increased by $34.4 million compared to the same period in the previous year due to a 232% increase in realised sales price and a 203% increase in sales volumes. Overall revenue was $41.4 million higher due also to a $7.0 million increase in recovery of carried costs.

The Group recognized revenue on the sale of 1,404,500 bbl (Working Interest) of oil during the six months ended June 30, 2021, compared to revenue on the sale of 1,084,300 bbl (Working Interest) of oil during the same period in the previous year. Revenue of $81.4 million during the six months ended June 30, 2021 increased by $45.3 million compared to the six months ended June 30, 2020. The increase in oil sales is attributable to a 62% increase in realized sales price combined with a 30% increase in sales volumes.

The increase in sales volumes for both the three and six months ended June 30, 2021 was primarily due to increased production from Banan field wells which were temporarily shut-in in early April 2020 due to poor economics. Operations at Banan re-commenced in July 2020.

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 June 30, 2021, the Group's Working Interest share of oil inventory amounted to 12,380 bbl.

Royalties

The following table summarizes royalty expense during the three and six months ended June 30, 2021 and June 30, 2020:

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Royalties	**18,700**	**1,862**	**33,379**	**15,882**

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 $16.8 million during the three months ended June 30, 2021 and increased by $17.5 million during the six months ended June 30, 2021 compared to the same periods 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 June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Field production costs(1)	4,797	2,701	8,762	8,573
Partner's share of production costs carried by Forza Petroleum	2,583	831	4,718	2,637
Operating expense	**7,380**	**3,532**	**13,480**	**11,210**
Sales(2) (bbl)	731,200	241,400	1,404,500	1,084,300
Field production costs(1) ($/bbl)	**6.56**	**11.19**	**6.24**	**7.91**
Operating expense ($/bbl)	**10.09**	**14.63**	**9.60**	**10.34**

Notes:

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

(2) Forza Petroleum's Working Interest share.

Operating expense of $7.4 million in the three months ended June 30, 2021 increased by $3.8 million compared to the same period in the previous year. The increase in operating expenses is primarily attributable to the temporary reduction in the comparative period due to shutting in Banan field operations in early April 2020 due to poor economics; operations at Banan re-commenced in July 2020. Operating costs per barrel decreased during the three months ended June 30, 2021 compared to the three months ended June 30, 2020 due to a 203% increase in sales volumes partially offset by a 109% increase in costs.

Operating expense for the six months ended June 30, 2021 increased by $2.3 million compared to the six months ended June 30, 2020. The increase in operating expenses is primarily attributable to the temporary reduction in the comparative period due to shutting in Banan field operations in early April 2020 due to poor economics; operations at Banan re-commenced in July 2020. Operating expense per barrel decreased during the six months ended June 30, 2021 compared to the six months ended June 30, 2020 due to a 30% increase in production volumes partly offset by a 20% increase in operating expense for the period.

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

($ thousands)	($000)	($/bbl)
Operating expense – three months ended March 31, 2021	**6,100**	**9.06**
Contribution of the following to variance:		
Personnel and camp costs	146	0.20
Well maintenance	16	0.02
Facilities lease and maintenance, diesel and operation	620	0.85
Security	498	0.68
Increase in production	-	(0.72)
Operating expense – three months ended June 30, 2021	**7,380**	**10.09**

General and administration

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Total General and Administration	**929**	**2,185**	**2,010**	**4,923**

General and administration expenses of $0.9 million and $2.0 million were recorded for the three and six months ended June 30, 2021, respectively, versus $2.2 million and $4.9 million in the comparable periods during 2020. The decrease between periods is primarily due to the corporate restructuring which was implemented in Q2 2020, resulting in reduced personnel costs for the remainder of 2020 and into 2021.

Impairment

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Impairment reversal of exploration and evaluation assets	-	(1,076)	-	(1,076)
Impairment expense of property, plant and equipment	-	-	-	238,245
Total impairment	**-**	**(1,076)**	**-**	**237,169**

During the first quarter of 2020 the Group recorded an impairment charge of $238.2 million related to the Hawler License Area due to a sharp fall in forecast oil prices at that time. That impairment was partially reversed in the fourth quarter of 2020. The carrying value of this oil and gas asset at June 30, 2021 is $490.4 million.

During the three months ended June 30, 2020, the Group recorded a credit to additions and an equivalent impairment reversal of $1.1 million due to revisions in costs that had been previously estimated relating to a divested E&E asset. The impairment recovery amount in the table above has been presented net of the associated divestiture costs during the period.

Depletion, depreciation and amortization

The following table summarizes the component parts of depletion, depreciation and amortization for the three and six months ended June 30, 2021 and 2020:

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Intangible assets: Amortization	4	3	7	7
PP&E assets: Depreciation	19	18	38	38
Depletion	8,953	1,637	17,187	9,214
Total DD&A	**8,976**	**1,658**	**17,232**	**9,259**

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 June 30, 2021 are primarily due to much higher production in the quarter compared to the comparable quarter in 2020 where production was partly shut-in, combined with a higher depletion charge per barrel which results from lower estimated proved plus probable oil reserves at year-end December 31, 2020 compared to a year earlier. The reserve estimates are detailed in the independent evaluator's report referenced in the Group's Material Change Report dated March 10, 2021.

Other income / (expense)

The following table summarizes the components of other income / (expense) for the three and six months ended June 30, 2021 compared to the same periods in 2020:

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Reduction / (increase) of provision against trade and other receivables	85	(460)	3,387	(4,827)
(Increase) in / reduction of materials inventory provision	(52)	3,534	1,438	(1,069)
Restructuring (charges) / reversal	-	214	-	(558)
Curtailment of retirement benefit obligation	-	1,335	-	1,335
Other	-	(7)	-	49
Other income / (expense)	**33**	**4,616**	**4,825**	**(5,070)**

Other income for the six months ended June 30, 2021 relates primarily to a $3.4 million reduction of the provision against trade and other receivables. The reduction of the provision against trade and other receivables is in response to the earlier than forecasted collection of receivables relating to November 2019 through February 2020. In addition, a $1.4 million decrease in the materials inventory provision was recorded due to a lower projected use of existing materials inventory than was projected in the prior period.

Finance expense

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Accretion of decommissioning liability	121	118	202	236
Interest on contingent consideration	99	200	239	531
Interest expense on Loan Facility	-	1,986	-	3,971
Accretion of deferred financing costs on Loan Facility	-	546	-	737
Other	-	12	-	13
Finance expense	**220**	**2,862**	**441**	**5,488**

Finance expense for the three and six months ended June 30, 2021 relates to interest on the contingent consideration and accretion of the decommissioning liability, projected to crystallize in 2038. For the three and six months ended June 30, 2020, additional costs were recorded related to accrued interest and accretion of deferred financing costs associated with a loan facility, which was settled in full in July 2020.

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

Income tax expense

The following table summarizes the component parts of income tax expense for the three and six months ended June 30, 2021 and June 30, 2020.

	Three months ended June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Current income tax expense	906	79	1,630	816
Deferred tax (benefit) / expense	(9)	(1)	2	3
Total income tax expense	**897**	**78**	**1,632**	**819**

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 June 30, 2021, the Group met its day to day working capital requirements and funded its capital and operating expenditures from cash reserves and receipt of its share of oil sales revenues from the Hawler License Area.

ZOG Credit Facility

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

Contingent consideration

During 2011, the Group acquired OPHKL. The related sale and purchase agreement ("**the Purchase Agreement**") establishes that additional consideration in the remaining amount of $66 million plus interest at USD LIBOR plus 0.25% per annum becomes payable if a second Hawler License Area discovery is declared to be commercial. While no such second declaration has been made, a financial liability was recognized for the contingent consideration as part of the business combination accounting in 2011, in accordance with IFRS.

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

The balance of unpaid principal and accrued interest potentially owed under the contingent consideration obligation to the vendor of the Hawler License Area as at June 30, 2021 was $76.6 million. During the six months ended June 30, 2021, contingent interest accrued at a rate of 0.32% per annum (year ended December 31, 2020 – 1.02%).

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

After applying the present value technique, the liability is thus presented at management's estimate of fair value which, as at June 30, 2021, amounted to $65.3 million (December 31, 2020 - $56.6 million). At June 30, 2021, management expected that, should a cash outflow related to the contingent consideration liability arise, it was more likely than not that this cash outflow would arise prior to March 31, 2022. Consequently, the liability has been classified as a current liability.

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

On July 9, 2021, the Group entered into an agreement ("**the Forbearance Agreement**") with the seller of OPHKL which established that no contingent consideration would become due as a result of a second commercial discovery prior to March 31, 2023. The terms of the Forbearance Agreement will result in the contingent liability being classified as non-current in the third quarter of 2021, assuming there are no new terms agreed.

The Forbearance Agreement establishes that contingent interest will no longer accrue on the contingent liability from July 23, 2020 to March 31, 2023. Subsequent to June 30, 2021, accrued interest of $0.5 million, previously recorded, has been released to income.

The Forbearance Agreement contemplates that the parties will undertake reasonable best efforts to negotiate a settlement of the outstanding contingent consideration obligation under the Purchase Agreement. In consideration for such forbearance the Group has accepted that, to the extent that any distribution 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 of the contingent liability.

Liquidity outlook

The Group expects cash on hand as of June 30, 2021 and cash receipts from net revenues and export sales exclusively through the Kurdistan Oil Export Pipeline will allow it to fund its forecasted capital expenditure and operating and administrative costs through the end of September 2022. The contingent consideration is not anticipated to become payable before March 2023.

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 June 30		Six months ended June 30	
($ thousands)	2021	2020	2021	2020
Net cash generated from operating activities	14,557	3,079	15,890	9,884
Net cash used in investing activities	(6,472)	(608)	(10,811)	(9,142)
Net cash used in financing activities	-	-	-	(4,025)
Total change in cash	8,085	2,471	5,079	(3,283)
Cash and cash equivalents at beginning of the period	10,152	3,158	13,158	8,912
Cash and cash equivalents at end of the period	**18,237**	**5,629**	**18,237**	**5,629**

The $8.1 million increase in cash during the three months ended June 30, 2021 resulted from $14.6 million in cash generated from operating activities, partially offset by the use of $6.5 million in cash to invest in drilling and facilities costs in the Hawler License Area.

The $5.1 million increase in cash during the six months ended June 30, 2021 resulted from $15.9 million in cash generated from operating activities, partially offset by the use of $10.8 million in cash to invest in drilling and facilities costs in the Hawler License Area.

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 September 30, 2022.

Economic Sensitivities

The following table shows the estimated effect that changes to crude oil prices, Gross (100%) oil sale volumes and operating costs would have had on the Group's profit for the six months ended June 30, 2021, had these changes occurred on January 1, 2021. These calculations are based on business conditions, production and sales volumes existing during the six months ended June 30, 2021. The 1,000 bbl/d increase assumes the increase is to Gross (100%) sale volumes and the Group's entitlement is calculated according to the provisions of the Hawler PSC.

	Change	Profit impact ($000s)	Profit impact ($ per basic share)
Change in average realized price	$10.00/bbl	9,583	0.02
Change in crude oil sales volumes	1,000 bbl/d	3,897	0.01
Change in operating expenses	$1.00/bbl	1,405	0.00

The possible future cash flows relating to the contingent consideration have been estimated based on the terms set out in the agreement with the counterparty and discounted using an observed market rate for similar obligations. As at June 30, 2021, management has assumed interest at LIBOR plus 0.25% per annum and a 10% discount rate. The following table shows the estimated effect that a 2% change in the interest and discount rates applicable to the contingent consideration balance would have had on the Group's profit for the six months ended June 30, 2021.

	Change	Profit impact ($000s)	Profit impact ($ per basic share)
Change in interest rate	2%	1,240	0.00
Change in discount rate	2%	2,043	0.00

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

Non-IFRS Measures

Field Netback

Field Netback is a non-IFRS measure that represents the Group's Working Interest share of oil sales, net of the Group's Working Interest share of royalties, operating expense and taxes.

Management believes that Field Netback is a useful supplemental measure to analyse operating performance and provides an indication of the results generated by the Group's principal business activities prior to the consideration of PSC and Joint Operating Agreement financing characteristics, and other income and expenses. Field Netback does not have a standard meaning under IFRS and may not be comparable to similar measures used by other companies. See the "Operations Review" section of this MD&A for a reconciliation of Field Netback.

Forza Petroleum Netback

Forza Petroleum Netback is a non-IFRS measure that represents Field Netback adjusted to reflect the impact of Carried Costs incurred and recovered through the sale of Cost Oil during the reporting period. Management believes that Forza Petroleum Netback is a useful supplemental measure to analyse the net cash impact of the Group's principal business activities prior to the consideration of other income and expenses. Forza Petroleum Netback does not have a standard meaning under IFRS and may not be comparable to similar measures used by other companies. See the "Operations Review" section of this MD&A for a reconciliation of Forza Petroleum Netback.

Outstanding Share Data

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

Upon vesting, FPL LTIP share awards issued in October 2020 will result in the issuance of up to an additional 16,445,222 Common Shares in 2021 and 2022.

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

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

The Company has not paid or declared any dividends during the six months ended June 30, 2021.

There were no repurchases of FPL's equity securities by the Company during the six months ended June 30, 2021.

Commitments and Contractual Obligations

The table below sets forth information relating to Forza Petroleum's commitments and contractual obligations as at June 30, 2021.

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

(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)	2019		2020				2021	
	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30
Revenue, net of royalties	20,010	22,890	17,893	2,370	12,983	14,104	21,049	26,974
Operating expense	(7,173)	(7,563)	(7,678)	(3,532)	(7,061)	(6,535)	(6,100)	(7,380)
Depletion	(5,129)	(7,017)	(7,579)	(1,636)	(4,666)	(8,997)	(8,234)	(8,953)
G&A	(2,801)	(3,742)	(2,738)	(2,185)	(3,368)	(1,200)	(1,081)	(929)
Profit / (Loss)	18,278	(81,334)	(249,590)	(3,854)	30,139	114,562	21,165	4,351
Earnings / (Loss) per basic and diluted share ($/share)	0.03	(0.15)	(0.45)	(0.01)	0.05	0.20	0.04	0.01
Cash generated from operating activities	9,712	(1,558)	6,805	3,079	3,622	8,601	4,207	14,557
Gross Production (bbl)	1,072,500	1,201,000	1,295,500	367,600	1,080,000	1,120,900	1,039,100	1,124,200
WI Production (bbl)	697,200	780,700	842,000	238,900	702,000	728,600	675,400	730,700
Gross Sales (bbl)	1,074,800	1,196,600	1,296,700	371,400	1,075,300	1,121,400	1,036,000	1,124,900
WI Sales (bbl)	698,600	777,800	842,800	241,400	698,900	728,900	673,400	731,200
Field production costs(1)	(5,484)	(5,784)	(5,871)	(2,701)	(4,590)	(4,248)	(3,965)	(4,797)
Field Netback(2)	10,233	12,486	8,140	(839)	4,406	5,340	10,655	13,855
Forza Petroleum Netback(2)	12,108	14,784	9,510	(1,248)	5,504	6,930	14,321	18,688
Brent price ($/bbl)	62.00	63.08	50.10	29.56	42.95	44.16	61.12	69.19
Sales price ($/bbl)	46.05	47.32	34.03	15.78	26.35	27.44	44.44	52.32
Royalties ($/bbl)	(22.51)	(23.13)	(16.64)	(7.71)	(12.88)	(12.35)	(21.80)	(25.57)
Field production costs(1) ($/bbl)	(7.85)	(7.44)	(6.97)	(11.19)	(6.57)	(5.83)	(5.89)	(6.56)
Current taxes ($/bbl)	(1.04)	(0.70)	(0.77)	(0.36)	(0.60)	(0.88)	(0.93)	(1.24)
Field Netback(2) ($/bbl)	14.65	16.05	9.65	(3.48)	6.30	7.32	15.82	18.95
Forza Petroleum Netback(2) ($/bbl)	17.33	19.00	11.28	(5.17)	7.87	9.50	21.26	25.56
Capital additions(3)	10,863	13,320	4,706	406	2,029	10,912	6,017	9,311

Notes:

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

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

(3) Before non-cash additions / (credits) relating to the change in estimates used to calculate the decommissioning calculation.

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 in order to optimize economics.

Variations in Field Netback and Forza Petroleum Netback reflect changes in revenue discussed above and the impact of changes in field production costs. Operating expenses and capital expenditures for the year ended 2020 and the six months ended June 30, 2021 include increased costs carried by the Group on behalf of partners partially offset by cost savings following the Banan-4 well workover and decreased security costs. .

Loss for the three months ended December 31, 2019 and March 31, 2020 include impairment expense of $54.4 million and $238.2 million, respectively, relating to the Hawler License Area. Profit for the three months ended December 31, 2020 includes an impairment reversal of $121.0, also relating to the Hawler License Area.

Transactions with Related Parties

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

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

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

New Accounting Pronouncements, Policies, and Critical Estimates

New Pronouncements

There were no new accounting standards adopted by the Group during the three months ended June 30, 2021.

Critical estimates

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

Going Concern

<u>Financial statement disclosure</u>

The 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 six months ended June 30, 2021, the Group met its day to day working capital requirements and funded its capital and operating expenditures through cash reserves and receipt of its share of oil sales revenues from the Hawler License Area.

The Directors have carefully considered the forecast cash flows for the 15 months following June 30, 2021, and they expect that cash resources will be sufficient to fund the Group's capital and operating expenditures and to meet forecast obligations as they fall due within that period.

In reaching that assessment the Directors have given regard, in particular, to expected receipts from oil sales and to the liability in respect of contingent consideration. The Group's drilling and facilities work program for the next 15 months will be tailored to the funding available for capital expenditure, with commitments and activity being contingent upon continued levels of revenue.

i) Receipts from oil sales

The Group's ability to continue as a going concern is primarily dependent on the Group's ability to produce, sell and receive payment for crude oil from the Hawler License Area. For oil sales up until and including July 2019, the Group had been receiving payment approximately three months after the month during which oil was delivered. Accordingly, the payment in respect of oil sales invoiced for July 2019 was received in October 2019. However, there were then increasing delays in receiving payment for oil sales made from August 2019 onwards. Payments for August and September 2019 invoices were received in January and February 2020, respectively.

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

In December 2020, the Prime Minister communicated that any amounts due to the government, both current unpaid balances as well as future liabilities arising, could be set-off against the overdue receivables. Further, beginning with January 2021 oil sales, monthly payments are being made by the KRI Ministry of Natural Resources against past due receivables. The monthly payment was initially equal to gross sales barrels from the Hawler License Area for the applicable month multiplied by 50% of the amount by which the average dated Brent price for the month exceeds $50/bbl.

In May 2021, the Company received further communication from the Prime Minister that starting with the payment of March 2021 oil sales, the monthly payment against past due receivables would be equal to gross sales barrels from the Hawler License Area for the applicable month multiplied by 20% of the amount by which the average dated Brent price for the month exceeds $50/bbl.

After the agreed set-off with the KRI Ministry of Natural Resources and partial payments received up to June 30, 2021, the remaining past due receivable has been reduced to $7.5 million, which is now forecast to be settled in full by December 31, 2021.

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

ii) Net current liabilities

The fact that current liabilities exceed current assets as at June 30, 2021 constitutes a prima facie risk to going concern as at that date. On July 9, 2021, management executed a Forbearance Agreement in respect of a contingent consideration liability. Upon signing this agreement, management expects that, should a cash outflow related to the contingent consideration arise, it is more likely that not that this cash outflow would not arise prior to March 31, 2023. Subsequent to the reporting date, this liability has thus fallen to be re-classified as non-current.

Contingent Consideration

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

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 six months ended June 30, 2021 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 capital expenditure, financing and capital activities, expectations that cash on hand as of June 30, 2021 and cash receipts from net revenues from export sales exclusively through the Kurdistan Oil Export Pipeline will allow the Group to fund its forecasted capital expenditures and operating and administrative costs through the end of September 2022, business and acquisition strategy and goals, opportunities, drilling and well workover plans, development plans and schedules and chance of success, results of exploration activities, declarations of commercial discovery, contingent liabilities and government approvals, the ability to consistently access the export pipeline or other exterior facilities to sell oil production, sales channels for future sales, future drilling of new wells and the reservoirs to be targeted, costs and drilling times for new wells, ultimate recoverability of current and long-term assets, estimates of oil reserves and resources, future royalties and tax levels, access to and sources of future financing and liquidity, future debt levels, availability of committed credit facilities, possible commerciality of our projects, expected operating capacity, expected operating costs, estimates on a per share basis, future foreign currency exchange rates, the issuance of shares as a result of the vesting of LTIP awards and exercise of outstanding warrants, estimates for the fair value of the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, the expected timing for receipt of payment for outstanding oil sales invoices for the months of November 2019, December 2019, January 2020 and February 2020 and future oil sales invoices, expectations that the COVID-19 virus outbreak will not restrict operations, the expected timing for settlement of liabilities including the contingent consideration arising from the acquisition of OP Hawler Kurdistan Limited in 2011, changes in any of the foregoing, and statements that contain words such as "may", "will", "would", "could", "should", "anticipate", "believe", "intend", "expect", "plan", "estimate", "budget", "outlook", "propose", "potentially", "project", "forecast" or the negative of such expressions and statements relating to matters that are not historical fact. Although Forza Petroleum believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. In making certain statements in this MD&A, Forza Petroleum has made assumptions with respect to the following: the general continuance of the current or, where applicable, assumed industry conditions, the continuation of assumed tax, royalties and regulatory regimes, forecasts of capital expenditures and the sources of financing thereof, timing and results of exploration activities, access to local and international markets for future crude oil production and future crude oil prices, Forza Petroleum's ability to obtain and retain qualified staff, contractors and personnel and equipment in a timely and cost-efficient manner, the political situation and stability in the jurisdiction in which Forza Petroleum has its license, the ability to renew its license on satisfactory terms, Forza Petroleum's future production levels, the applicability of technologies for the recovery and production of Forza Petroleum's oil reserves and resources, the amount, nature, timing and effects of capital expenditures, geological and engineering estimates in respect of Forza Petroleum's reserves and resources, the geology of the areas in which Forza Petroleum is conducting exploration and development activities, operating and other costs, the extent of Forza Petroleum's liabilities, and business strategies and plans of management and Forza Petroleum's business partners. For more information about these assumptions and risks facing the Group, refer to FPL's Annual Information Form dated March 23, 2021, available at www.sedar.com 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 for the License Area.

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

KRG
Kurdistan Regional Government of Iraq

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

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

PP&E
Property, plant and equipment

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

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

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

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

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

Working Interest or WI
The Group's interest in an applicable License Area

ZOG
Zeg Oil and Gas Limited