FORZA PETROLEUM

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 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 and six months ended June 30, 2023 and 2022.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Three months ended June 30		Six months ended June 30	
$000s	**Note**	**2023**	**2022**	**2023**	**2022**
Revenue		1,327	98,766	49,082	181,126
Royalties		(543)	(40,437)	(20,042)	(74,138)
Net revenue		**784**	**58,329**	**29,040**	**106,988**
Operating expense		(6,715)	(9,251)	(15,196)	(17,941)
Depreciation, depletion and amortization	**5, 6**	(542)	(12,376)	(11,220)	(24,775)
Impairment loss	**5, 6**	(121,421)	-	(121,421)	-
General and administration expense		(1,417)	(1,375)	(2,991)	(3,115)
Other expense	**18**	(513)	(171)	(3,433)	(412)
Increase in expected credit loss against trade and other receivables	**8**	(1,901)	-	(5,822)	-
Change in fair value of purchase consideration	**11a**	-	(1,670)	(1,795)	(3,301)
(Loss) / Profit from operations		**(131,725)**	**33,486**	**(132,838)**	**57,444**
Finance income	**19**	735		1,255	-
Finance expense	**20**	(178)	(49)	(363)	(120)
Foreign exchange (losses) / gains		(52)	8	(59)	25
(Loss) / Profit before income tax		**(131,220)**	**33,445**	**(132,005)**	**57,349**
Income tax expense	**17**	(60)	(1,907)	(1,095)	(3,575)
(Loss) / Profit for the period		**(131,280)**	**31,538**	**(133,100)**	**53,774**
Comprehensive income for the period		**(131,280)**	**31,538**	**(133,100)**	**53,774**
(Loss) / Earnings per share (basic and diluted)	**14**	**(0.22)**	**0.05**	**(0.22)**	**0.09**

Consolidated Statement of Financial Position

$000s	Note	June 30 2023	December 31 2022
Non-current assets			
Intangible assets	**5**	-	51,351
Property, plant and equipment	**6**	183,272	247,335
Deferred tax assets		252	247
		183,524	**298,933**
Current assets			
Inventories	**7**	10,775	12,969
Trade and other receivables	**8**	54,886	62,500
Other current assets	**9**	1,614	2,675
Cash and cash equivalents	**10**	71,217	71,103
		138,492	**149,247**
Total assets		**322, 016**	**448,180**
Current liabilities			
Trade and other payables	**11**	102,403	97,102
		102,403	**97,102**
Non-current liabilities			
Retirement benefit obligation		1,533	1,394
Decommissioning obligation	**12**	20,158	18,947
		21,691	**20,341**
Total liabilities		**124,094**	**117,443**
Equity			
Share capital	**13**	-	1,365,467
Contributed surplus	**13**	1,365,467	-
Reserves	**15**	22,357	22,072
Accumulated deficit		(1,189,902)	(1,056,802)
Total equity		**197,922**	**330,737**
Total equity and liabilities		**322,016**	**448,180**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on July 25, 2023.

On behalf of the Board of Directors:

signed
Vance Querio
Director

signed
Peter Newman
Director

Consolidated Statement of Changes in Equity

$000s	Note	Share capital	Contributed surplus	Reserves	Accumulated deficit	Total equity
Balance at December 31, 2021		**1,363,221**	**-**	**23,301**	**(919,695)**	**466,827**
Profit for the period		-	-	-	53,774	53,774
Share based payment compensation	**15**	-	-	454	-	454
Balance at June 30, 2022		**1,363,221**	**-**	**23,755**	**(865,921)**	**521,055**
Loss for the period		-	-	-	(191,758)	(191,758)
Share based payment compensation	**15**	-	-	1,361	-	1,361
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		-		-	(133,100)	(133,100)
Reduction of stated capital	**15**	(1,365,467)	1,365,467	-	-	-
Share based payment compensation	**15**	-	-	285	-	285
Balance at June 30, 2023		**-**	**1,365,467**	**22,357**	**(1,189,902)**	**197,922**

Consolidated Statement of Cash Flows

		Three months ended June 30		Six months ended June 30	
$000s	**Note**	**2023**	**2022**	**2023**	**2022**
Operating activities					
(Loss) / Profit for the period		(131,280)	31,538	(133,100)	53,774
Adjustments for non-cash transactions	**16**	124,842	14,462	147,025	29,041
Change in retirement benefit obligation		(104)	(97)	(104)	(97)
Changes in non-cash working capital	**16**	772	(312)	(1,030)	(24,546)
Net cash (used in) / generated from operating activities		**(5,770)**	**45,591**	**12,791**	**58,172**
Investing activities					
Acquisition of intangible assets		(431)	-	(3,462)	-
Acquisition of property, plant and equipment		(2,179)	(18,741)	(9,215)	(39,380)
Net cash used in investing activities		**(2,610)**	**(18,741)**	**(12,677)**	**(39,380)**
Financing activities		-	-	-	-
Net (decrease) / increase in cash and cash equivalents		**(8,380)**	**26,850**	**114**	**18,792**
Cash and cash equivalents at beginning of the period		79,597	16,614	71,103	24,672
Cash and cash equivalents at end of the period	**10**	**71,217**	**43,464**	**71,217**	**43,464**

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 and six months ended June 30, 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 July 25, 2023.

2. Summary of significant accounting policies

a. Basis of preparation

The Company’s Financial Statements for the three and six months ended June 30, 2023 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 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 and six months ended June 30, 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 July 25, 2023, the Group has received payment for all Hawler oil sales made to the Kurdistan Regional Government (“KRG”) through September 2022 and for all local oil sales during the three months ended June 30, 2023.

In recent years, sales of the Group’s oil production had been exclusively through the Kurdistan Oil Export Pipeline (“KOEP”). On March 25, 2023, the operator of the KOEP notified OP Hawler Kurdistan Limited, the Group’s operating subsidiary in the Kurdistan Region of Iraq (“KRI”), of a shutdown of the pipeline. As a result, production from the Hawler license area was substantially shut-in.

2. Summary of significant accounting policies (continued)

b. Going concern (continued)

The shutdown relates to a March 2023 arbitration decision of the International Chamber of Commerce impacting exports by the KRG through the port of Ceyhan in Turkey. An initial statement from the Federal Government of Iraq ("FGI") indicated that exports of Iraqi crude oil through the port may resume only with the consent of the FGI.

More recent public reports indicate that officials from the KRG and the FGI have agreed to mechanisms that will apply and permit a restart of oil exports from the Kurdistan Region with the consent of the FGI pending the development of a federal oil and gas law. Discussions between the FGI and the Republic of Turkey are underway to re-open the KOEP.

During the second quarter of 2023, the Group sold oil inventory on hand to the local market. In July 2023, the Group entered into a short-term contract to sell 8,000 bbl/d to the local market (working interest: 5,200 bbl/d), which supported a partial restart of production operations. The price under these local sales agreements averaged $28/bbl and required payment in advance from buyers.

Management views the shutdown of the KOEP as a temporary interruption to operations, however the timing of a full restart of the Group's production and oil sales via the KOEP remains uncertain, as do the price and payment terms applicable to such sales. These uncertainties cast significant doubt on the Group's ability to continue as a going concern.

Depending on the duration of the KOEP shutdown, and the resumption of payments for past oil sales, 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 the pipeline shutdown, the timing of settlement of outstanding receivables and sales pricing mechanism changes, if any.

In view of the ongoing suspension of the KOEP, the Group's principal shareholder has firmly indicated that it will provide up to $15 million until May 31, 2024, if needed, to fund cash outflows.

The Directors have carefully considered the forecast cash flows for the 15 months following June 30, 2023. 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 during the period from October 2022 through March 2023.

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

i. Continuation of local sales until October 1, 2023 with terms similar to the sales contract entered into in July 2023;
ii. Resumption of sales through the KOEP from October 1, 2023 with receipt of payment for future pipeline sales to be received 30 days after invoicing;
iii. Collection of receivables from the October 2022 to March 2023 oil sales to be received in instalments, between December 2023 and December 2025;
iv. Pipeline sales, when they resume, will continue to be based on the pricing mechanism implemented by the Ministry of Natural Resources on September 1, 2022; and
v. The settlement of the deferred purchase consideration due to the sellers of OP Hawler Kurdistan Limited (Note 11) will not occur before September 2023.
vi. The Group will be able to obtain $15 million from its principal shareholder, if and as needed.

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 realize 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.

2. Summary of significant accounting policies (continued)

b. Going concern (continued)

The Financial Statements do not reflect adjustments, which may be material, that would be necessary if the going concern assumption were not appropriate.

c. New and amended standards 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 IFRS 8: Definition of Accounting Estimates	January 1, 2023
IFRS 17 Insurance Contracts, including Amendments to IFRS 17	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 IAS 1: 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 and six months ended June 30, 2023. As at June 30, 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	3	-	3
Decommissioning (Note 12)	(222)	-	(222)
At June 30, 2022	**47,529**	**2,225**	**49,754**
Additions	3,878	-	3,878
Decommissioning (Note 12)	(56)	-	(56)
At December 31, 2022	**51,351**	**2,225**	**53,576**
Additions	4,521	-	4,521
Decommissioning (Note 12)	23	-	23
At June 30, 2023	**55,895**	**2,225**	**58,120**
Accumulated amortization and impairment			
At January 1, 2022 and June 30, 2022	**-**	**2,225**	**2,225**
Amortization	-	-	-
At December 31, 2022	**-**	**2,225**	**2,225**
Impairment	55,895	-	55,895
At June 30, 2023	**55,895**	**2,225**	**58,120**
Carrying amount			
At June 30, 2023	-	-	-
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 cash generating units (“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 June 30, 2023 and December 31, 2022, and the Group continues to judge that the Hawler – Ain al Safra sub-contract area constitutes an individual CGU. As at June 30, 2023, because of the extended delay to receipt of payments for oil sales made from October 2022 through March 2023, due to the continued shutdown of the KOEP, no substantive expenditures or further activities were planned for the Ain al Safra sub-contract area in the near term. Therefore an impairment expense of $55.9 was recorded to reduce the carrying amount of the related CGU to nil.

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 KRI. 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	29,338	-	29,338
Decommissioning (1)	(4,737)	-	(4,737)
At June 30, 2022	**1,032,445**	**3,550**	**1,035,995**
Additions	25,686	16	25,702
Decommissioning (1)	(2,716)	-	(2,716)
At December 31, 2022	**1,055,415**	**3,566**	**1,058,981**
Additions	11,828	68	11,896
Decommissioning (1)	823	-	823
At June 30, 2023	**1,068,066**	**3,634**	**1,071,700**
Accumulated depreciation, depletion and impairment			
At January 1, 2022	**538,327**	**3,550**	**541,877**
Depletion	24,720	-	24,720
At June 30, 2022	**563,047**	**3,550**	**566,597**
Impairment (2)	220,584	-	220,584
Depreciation	-	2	2
Depletion	24,463	-	24,463
At December 31, 2022	**808,094**	**3,552**	**811,646**
Impairment (3)	65,526	-	65,526
Depreciation	-	14	14
Depletion	11,242	-	11,242
At June 30, 2023	**884,862**	**3,566**	**888,428**
Carrying amount			
At June 30, 2023	183,204	68	183,272
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.

(3) As at June 30, 2023, the Group recorded a $65.5 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 a lower near-term production profile and lower estimated future realized prices compared to the previous impairment assessment made at March 31, 2023. No impairment loss or reversal was recorded as a result of the impairment assessment completed at March 31, 2023.

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 remains 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

6. Property, plant and equipment (continued)

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 when the carrying amount exceeds the recoverable amount. An impairment reversal is recognized 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.

Impairment test at June 30, 2023

The extended shutdown of the KOEP and resulting substantial shut-in of production and export sales 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 an impairment test as at June 30, 2023.

In performing the impairment test as at June 30, 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 near-term capital investment, and iv) a revised 2023 operating expense forecast.

Expected cash inflows from export 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 July 1, 2023 by external firms, less the KBT Discount.

Expected cash inflows assume continuation of the local sales (at terms and volumes as discussed in Note 2b), until the forecast re-opening of the KOEP on October 1, 2023 and that all sales of crude oil from the Hawler license area continue to be completed through the KOEP from that date, 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,	Future Contract Price ($/bbl)	Future Contract Price less KBT differential ($/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 (July - September) (1)	N/A	N/A	N/A	N/A	N/A	29.00
2023 (October - December)	75.11	62.30	N/A	N/A	75.11	50.66
2024	73.41	60.60	N/A	N/A	73.41	49.41
2025	70.96	58.15	N/A	N/A	70.96	46.89
2026	69.02	56.21	80.71	67.90	72.53	49.90
2027	67.23	54.42	81.95	69.14	77.54	54.67
2028	N/A	N/A	83.58	70.77	83.58	60.54
2029	N/A	N/A	85.26	72.45	85.26	62.13
2030	N/A	N/A	86.97	74.16	86.97	63.71
Thereafter(2)	N/A	N/A	2% escalation	2% escalation	2% escalation	2% escalation

(1) The contract price for 2023 assumes any sales from July through September are made only on the local market. The estimated realized price is consistent with the most recent sales arrangement signed in July 2023 (Note 2b).

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

6. Property, plant and equipment (continued)

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 June 30, 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 KRI.

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.

Application of the fair value less costs of disposal methodology using the assumptions described above indicated an estimated recoverable amount for the Hawler license area CGU as at June 30, 2023 of $183 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 lower than the carrying value of the asset at June 30, 2023, therefore the Group recorded a $66 million impairment loss as at June 30, 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 June 30, 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	121	107	95
Management Forecast prices, shown above	209	**183**	162
Management Forecast prices plus $10/bbl	295	258	228

7. Inventories

$000s	**June 30 2023**	**December 31 2022**
Oil inventory	212	256
Materials, net of provision	10,563	12,713
	10,775	**12,969**

The cost of oil inventory is expensed through production and depletion expenses in the period during which it is sold. As at June 30, 2023, the Group's working interest share of oil inventory was 14,600 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 June 30, 2023 is $9.0 million (December 31, 2022: $5.6 million) and an expense of $3.4 million has been included in other expense during the six months ended June 30, 2023 (June 30, 2022 – expense of $0.4 million) (Note 18).

No inventories have been pledged as security during the period.

8. Trade and other receivables

$000s	June 30 2023	December 31 2022
Revenue receivables	60,657	62,433
Expected credit loss provision	(5,822)	-
Other receivables	51	67
	54,886	**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 July 25, 2023, no amounts have been collected relating to the revenue receivable balance outstanding at June 30, 2023.

$000s	Six months ended June 30, 2023	Year ended December 31, 2022
Expected credit loss, beginning of period	-	-
Movement in expected credit loss	(5,822)	-
Expected credit loss, end of period	**(5,822)**	**-**

The increase in the expected credit loss during the six months ended June 30, 2023 reflects the shutdown of the KOEP and the delayed payments for sales made from October 2022 through March 2023.

9. Other current assets

$000s	June 30 2023	December 31 2022
Prepaid charges and other current assets	780	919
Deposits	834	1,756
	1,614	**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 June 30, 2023, $60.7 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	June 30 2023	December 31 2022
Trade accounts payable	14,528	7,211
Amounts payable to joint operations partners	952	-
Other payables and accrued liabilities	10,687	15,450
Purchase consideration	76,236	74,441
Total trade and other payables	**102,403**	**97,102**

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

11. Trade and other payables (continued)

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 was due to the seller of OPHKL in the event of a second commercial discovery.

Pursuant to the latest agreements with the seller of OPHKL, the balance owing to the seller of OPHKL became due and payable on March 31, 2023, subject to receipt by the Group from the seller of OPHKL of a payment direction and appropriate documentation to comply with settlement regulations. As no such documentation has as yet been received settlement is not now expected to occur before September 1, 2023 and the balance owed to the seller of OPHKL remains at $76.2 million.

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 June 30, 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 June 30, 2023 is $20.2 million (December 31, 2022 - $18.9 million) based on the Group's undiscounted liability of $55.1 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 six months ended June 30, 2023 and was updated to 2.9% (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 six months ended June 30, 2023 and was updated to 6.7% (December 31, 2022: 6.0%). The discount rate is determined by adding the US dollar risk-free rate to the inflation rate.

$000s	Six months ended June 30, 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	2,862	6,073
Change in discount rate	(2,282)	(16,540)
Property development additions	268	1,216
	19,795	**18,482**
Accretion expense (Note 20)	363	465
Decommissioning obligation, end of the period	**20,158**	**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 June 30, 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 June 30, 2023 would decrease by $2.7 million.

13. Share capital

a. Issued common shares

	Number of shares	Share capital
		$000s
At January 1, 2022 and June 30, 2022	**584,976,202**	**1,362,221**
Issue of shares for LTIP	15,330,155	2,246
At December 31, 2022	**600,306,357**	**1,365,467**
Reduction of stated capital	-	**(1,365,467)**
June 30, 2023	**600,306,357**	**-**

The Company has unlimited authorized share capital at June 30, 2023.

<u>2023 share capital transactions</u>

A reduction to the stated capital account maintained in respect of the common shares of the Company was approved at the Annual and Special Meeting of Shareholders held on June 27, 2023. The reduction to stated capital was approved by directors and implemented effective as of June 30, 2023. As a result, the share capital balance was reclassified to contributed surplus at June 30, 2023.

<u>2022 share capital transactions</u>

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 June 30		Six months ended June 30	
$000s	**2023**	**2022**	**2023**	**2022**
(Loss) / Profit for the period attributable to equity holders	(131,280)	31,538	(133,100)	53,774
Weighted average number of common shares for basic earnings per share (1)	600,306,357	584,976,202	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	584,976,202	600,306,357	618,125,202
Basic (loss) / earnings per share - $	**(0.22)**	**0.05**	**(0.22)**	**0.09**
Diluted (loss) / earnings per share - $	**(0.22)**	**0.05**	**(0.22)**	**0.09**

(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	454	-	454
At June 30, 2022	**21,112**	**2,643**	**23,755**
Share based payment transactions	1,361	-	1,361
Issue of shares for LTIP	(3,044)	-	(3,044)
At December 31, 2022	**19,429**	**2,643**	**22,072**
Share based payment transactions	285	-	285
At June 30, 2023	**19,714**	**2,643**	**22,357**

16. Supplemental cash flow information

a. Adjustments for non-cash transactions

	Three months ended June 30		Six months ended June 30	
$000s	**2023**	**2022**	**2023**	**2022**
Revenue	-	-	4,410	-
Royalties	-	-	(1,889)	-
Depreciation, depletion and amortization	542	12,376	11,220	24,775
Share based payment expense	108	115	153	231
Impairment loss	121,421	-	121,421	-
Unrealized foreign exchange (gains) / losses	47	(51)	49	(59)
Income tax benefit	(2)	(2)	(5)	(3)
Finance costs	178	49	363	120
General and administration	109	104	217	207
Increase in fair value of purchase consideration	-	1,670	1,795	3,301
Increase in expected credit loss against trade and other receivables	1,901	-	5,822	-
Other expense	538	201	3,469	469
Items not involving cash	**124,842**	**14,462**	**147,025**	**29,041**

b. Changes relating to non-cash working capital

	Three months ended June 30		Six months ended June 30	
$000s	**2023**	**2022**	**2023**	**2022**
Inventories	(1,776)	(3,240)	(1,177)	(2,846)
Trade and other receivables	34	1,764	(729)	(23,436)
Other current assets	647	(1,530)	1,061	(1,947)
Trade and other payables	1,459	(5,849)	3,483	(6,526)
Change in non-cash working capital	**364**	**(8,855)**	**2,638**	**(34,755)**

16. Supplemental cash flow information (continued)

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

	Three months ended June 30		Six months ended June 30	
$000s	**2023**	**2022**	**2023**	**2022**
Operations	738	(312)	(1,030)	(24,546)
Investing – PP&E	153	(8,543)	2,615	(10,209)
Investing – EE&E	(528)	-	1,053	-
Cash flows relating to non-cash working capital	**363**	**(8,855)**	**2,638**	**(34,755)**

c. Other cash flow information

	Three months ended June 30		Six months ended June 30	
$000s	**2023**	**2022**	**2023**	**2022**
Cash income taxes paid – net	29	27	111	45

17. Income tax expense

	Three months ended June 30		Six months ended June 30	
$000s	**2023**	**2022**	**2023**	**2022**
Current income tax expense	63	1,901	1,101	3,571
Deferred tax on LTIP shares	(3)	6	(6)	4
Income tax expense	**60**	**1,907**	**1,095**	**3,575**

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 six months ended June 30, 2023, income taxes related to oil sales in the KRI in the amount of $1.0 million (2023 - $3.5 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 June 30		Six months ended June 30	
$000s	**Note**	**2023**	**2022**	**2023**	**2022**
Increase in materials inventory provision	**7**	(487)	(187)	(3,408)	(428)
Other		(26)	16	(25)	16
Other expense		**(513)**	**(171)**	**(3,433)**	**(412)**

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 six months ended June 30, 2023 ranged between 4.3% and 4.9%.

20. Finance costs

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

		Three months ended June 30		Six months ended June 30	
$000s	**Note**	**2023**	**2022**	**2023**	**2022**
Accretion of decommissioning obligation	**12**	178	49	363	120
Finance costs		**178**	**49**	**363**	**120**

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 June 30, 2023			
$000s	**Middle East**	**Corporate**	**Total**
Revenue	1,327	-	1,327
Royalty	(543)	-	(543)
Net revenue	**784**	**-**	**784**
Operating expense	(6,715)	-	(6,715)
Depreciation, depletion and amortization	(534)	(8)	(542)
Impairment loss	(121,421)	-	(121,421)
General and administration expense	(1,208)	(209)	(1,417)
Other expense	(513)	-	(513)
Increase in expected credit loss against trade and other receivables	(1,901)	-	(1,901)
Segment result	**(131,508)**	**-**	**(131,725)**
Finance income			735
Finance costs			(178)
Foreign exchange loss			(52)
Loss before income tax			**(131,220)**
Income tax expense			(60)
Loss for the period			**(131,280)**
Capital additions[(1)]	2,242	1	2,243
Segment assets as at June 30, 2023	321,472	544	322,016
Segment liabilities as at June 30, 2023	121,079	3,015	124,094

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

21. Segment information (continued)

For the three months ended June 30, 2022 $000s	Middle East	Corporate	Total
Revenue	98,766	-	98,766
Royalty	(40,437)	-	(40,437)
Net revenue	**58,329**	**-**	**58,328**
Operating expense	(9,251)	-	(9,251)
Depreciation, depletion and amortization	(12,376)	-	(12,376)
General and administration expense	(804)	(571)	(1,375)
Other expense	(171)	-	(171)
Change in fair value of contingent consideration	(1,670)	-	(1,670)
Segment result	**34,057**	**(571)**	**33,485**
Finance costs			(49)
Foreign exchange gain			8
Loss before income tax			**33,445**
Income tax expense			(1,907)
Loss for the period			**31,538**
Capital additions[(1)]	10,275	-	10,275
Segment assets as at June 30, 2022	632,289	1,651	633,942
Segment liabilities as at June 30, 2022	109,719	3,168	112,887

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

For the six months ended June 30, 2023 $000s	Middle East	Corporate	Total
Revenue	49,082	-	49,082
Royalty	(20,042)	-	(20,042)
Net revenue	**29,040**	**-**	**29,040**
Operating expense	(15,196)	-	(15,196)
Depreciation, depletion and amortization	(11,206)	(14)	(11,220)
Impairment loss	(121,421)	-	(121,421)
General and administration expense	(2,123)	(868)	(2,991)
Other expense	(3,433)	-	(3,433)
Increase in expected credit loss against trade and other receivables	(5,822)	-	(5,822)
Change in fair value of contingent consideration	(1,795)	-	(1,795)
Segment result	**(131,956)**	**(882)**	**(132,838)**
Finance income			1,255
Finance costs			(363)
Foreign exchange loss			(59)
Loss before income tax			**(132,005)**
Income tax expense			(1,095)
Loss for the period			**133,100**
Capital additions[(1)]	16,349	68	16,417

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

21. Segment information (continued)

For the six months ended June 30, 2022 $000s	Middle East	Corporate	Total
Revenue	181,126	-	181,126
Royalty	(74,138)	-	(74,138)
Net revenue	**106,988**	**-**	**106,988**
Operating expense	(17,941)	-	(17,941)
Depreciation, depletion and amortization	(24,775)	-	(24,775)
General and administration expense	(1,428)	(1,687)	(3,115)
Other expense	(412)	-	(412)
Change in fair value of contingent consideration	(3,301)	-	(3,301)
Segment result	**59,131**	**(1,687)**	**57,444**
Finance costs			(120)
Foreign exchange gain			25
Loss before income tax			**57,349**
Income tax expense			(3,575)
Loss for the period			**53,774**
Capital additions[1]	29,341	-	29,341

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

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

$000s	June 30 2023	December 31 2022
Iraq (Kurdistan Region)	183,272	298,671
Other	252	262
	183,524	**298,933**

22. Commitments

a. Contractual obligations

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

$000s	June 30 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 June 30, 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 $0.5 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.