HKN ENERGY LTD.

Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Board of Directors and Shareholders
HKN Energy Ltd.:

We have audited the accompanying financial statements of HKN Energy Ltd., which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HKN Energy Ltd. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
April 15, 2020

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HKN ENERGY LTD.

Balance Sheets

December 31, 2019 and December 31, 2018

Assets		December 31, 2019	December 31, 2018
Current assets:			
Cash and cash equivalents	$	83,071,120	32,715,348
Accounts receivable		110,593,880	63,162,589
Interest receivable		114,404	—
Prepaid expenses		1,215,616	690,478
Inventory		13,538,109	11,686,830
Related party receivable		33,713	27,251
Total current assets		208,566,842	108,282,496
Properties and equipment, at cost – full cost method:			
Evaluated properties, subject to depletion		568,131,513	432,585,344
Accumulated depletion		(121,989,261)	(61,172,228)
		446,142,252	371,413,116
Other property and equipment		7,114,311	5,146,098
Accumulated depreciation		(3,712,640)	(2,925,990)
		3,401,671	2,220,108
Total assets	$	658,110,765	481,915,720
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	$	53,283,309	41,195,900
Accrued interest		3,483,333	—
Revenues payable		22,372,773	12,863,557
Total current liabilities		79,139,415	54,059,457
Bonds payable, net of debt issuance costs and fees		97,713,141	—
Future abandonment cost		4,628,978	3,819,684
Total liabilities		181,481,534	57,879,141
Common stock, $0.01 par value 5,000,000 shares authorized,			
33,250 Class A shares issued and outstanding at December 31, 2019 and December 31, 2018, and		333	333
15,830 Class B shares issued and outstanding at December 31, 2019 and December 31, 2018		158	158
Additional paid-in capital		540,198,469	540,198,469
Accumulated deficit		(63,569,729)	(116,162,381)
Total shareholders' equity		476,629,231	424,036,579
Total liabilities and shareholders' equity	$	658,110,765	481,915,720

See accompanying notes to financial statements

HKN ENERGY LTD.

Statements of Operations

Years ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Oil sales	$ 189,912,614	122,080,788
Total revenues	189,912,614	122,080,788
Expenses:		
Operating expenses	41,111,146	25,710,541
Oil transportation expenses	7,381,802	5,711,800
Depletion, depreciation and amortization	61,778,263	31,873,946
General and administrative	19,504,799	11,884,646
Total expenses	129,776,010	75,180,933
Operating income	60,136,604	46,899,855
Other expenses:		
Interest expense, net	(7,417,944)	—
Other expenses	(126,008)	(43,757)
Total other expense	(7,543,952)	(43,757)
Net income	$ 52,592,652	46,856,098

See accompanying notes to financial statements

HKN ENERGY LTD.

Statement of Shareholders' Equity

Years ended December 31, 2019 and 2018

	Common stock		Additional	Accumulated	
	Shares	**Amounts**	**paid-in capital**	**deficit**	**Total**
Balance – January 1, 2018	33,250	333	488,972,156	(163,018,479)	325,954,010
Contributions from Class A shareholders	—	—	1,071,658	—	1,071,658
Initial contribution of assets from Class B shareholders	—	—	3,169,103	—	3,169,103
Issuance of shares to Class B shareholders	15,830	158	47,111,080	—	47,111,238
Share-based compensation	—	—	(125,528)	—	(125,528)
Net income allocated to Class A shareholders	—	—	—	40,842,877	40,842,877
Net income allocated to Class B shareholders	—	—	—	6,013,221	6,013,221
Balance – December 31, 2018	49,080	$ 491	540,198,469	(116,162,381)	424,036,579
Net income allocated to Class A shareholders	—	—	—	35,629,701	35,629,701
Net income allocated to Class B shareholders	—	—	—	16,962,951	16,962,951
Balance – December 31, 2019	49,080	$ 491	540,198,469	(63,569,729)	476,629,231

See accompanying notes to financial statements

HKN ENERGY LTD.

Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019	2018
Operating activities:			
Net income	$	52,592,652	46,856,098
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		61,778,263	31,873,946
Amortization of debt issuance costs and fees		457,371	—
Share-based compensation expense		—	(53,798)
Settlement of share-based compensation		—	(71,730)
Change in operating assets and liabilities:			
Accounts receivable		(47,431,291)	(28,942,212)
Interest receivable		(114,404)	—
Related party accounts		(6,462)	70,334
Prepaid expenses		(525,138)	(326,257)
Accounts payable and accrued expenses		3,672,143	11,871,158
Accrued interest		3,483,333	—
Revenues payable		9,509,216	(2,121,304)
Net cash provided by operating activities		83,415,683	59,156,235
Investing activities:			
Development of oil and gas properties		(127,779,106)	(42,597,660)
Purchases of other property and equipment		(2,536,575)	(1,526,970)
Purchase of Marathon interest		—	(31,268,683)
Net cash used in investing activities		(130,315,681)	(75,393,313)
Financing activities:			
Contributions from Class A shareholders		—	1,071,658
Contributions from Class B shareholders		—	47,111,238
Proceeds from issuance of bonds, net of fees		97,500,000	—
Debt issuance costs		(244,230)	—
Net cash provided by financing activities		97,255,770	48,182,896
Increase in cash and cash equivalents		50,355,772	31,945,818
Cash and cash equivalents – beginning of period		32,715,348	769,530
Cash and cash equivalents – end of period	$	83,071,120	32,715,348
Noncash capital expenditures in liabilities	$	24,902,035	16,828,799

See accompanying notes to financial statements

(1) Nature of Operations

HKN Energy Ltd. (HKN Energy or the Company) is a Cayman company whose principal activity is the exploration, development, and production of oil in the Kurdistan Region of Iraq (Kurdistan).

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimations and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and the amounts of revenues and expenses reported. Actual results could differ materially from those estimates.

Significant estimates underlying these financial statements include the estimated quantities of the Company's proved reserves (including the associated future net cash flows from those proved reserves and costs to develop the reserves) used to compute depletion expense and the full cost ceiling limitation. Other estimates that require assumptions concerning future events and substantial judgment include asset retirement obligations and share-based compensation.

(b) Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which specifies how and when to recognize revenue. This standard requires expanded disclosures surrounding revenue recognition and is intended to improve, and converge with international standards, the financial reporting requirements for revenue from contracts with customers. The effective date for ASU 2014-09 was delayed through issuance of ASU 2015-14, *Revenue from Contracts with Customers – Deferral of the Effective Date*, to January 1, 2019 for private companies. Entities have the option of using either a full retrospective or cumulative effect transition method also known as the modified retrospective approach to adopt the new standard. The Company adopted the new guidance effective January 1, 2019 and, using the modified retrospective approach, evaluated that the new guidance did not have a material effect on the timing of revenue recognized, results of operations, or cash flows. This is discussed further in note 2(g).

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), effective January 1, 2021 for private companies. Under the new provision, lessees will report a right-of-use asset and a lease liability for virtually all leases (other than leases with a term of 12 months or less), equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, leases will be classified as either operating or finance, based on criteria that are largely similar to those applied in current lease accounting. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of practical expedients that entities may elect to apply relating to the identification and classification of lessor initial direct costs, and the ability to use hindsight in evaluating lessees' options to extend or terminate a lease or to purchase the

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underlying asset for leases that commenced before the effective date. The Company is currently evaluating the impact that the adoption of this ASU will have on its financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations* (Topic 805), which specifies the minimum inputs and processes required for an integrated set of assets and activities to meet the definition of a business. This ASU became effective for fiscal years beginning after December 15, 2019 for private companies. Entities are required to apply guidance prospectively upon adoption. Effective January 1, 2018, the Company early-adopted ASU 2017-01 and applied the guidance prospectively, which included the Marathon interest acquisition in August 2018, discussed further in note 4.

(c) Risks and Uncertainties

The price the Company receives for the oil it produces heavily influences the revenue, profitability, cash flow available for capital expenditures, access to capital, and future rate of growth. Oil is a commodity and, therefore, oil prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the market for oil has been volatile and will likely continue to be volatile in the future. During 2019, the average price of oil was approximately $64.21 per Bbl, based on published Dated Brent Crude Oil daily settlement prices. As of April 13, 2020, the average Brent Crude Oil futures price for the remainder of 2020 was $36 per Bbl. A sustained oil price decline could lead to future impairments of the Company's oil properties as well as adversely affect its access to capital and financing to be able to meet its future obligations. See further discussion in note 12.

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(e) Accounts Receivable

The table below displays the balances included in accounts receivable in the accompanying balance sheets at December 31, 2019 and 2018.

		December 31	
		2019	**2018**
Accounts receivable:			
Receivables from oil sales	$	99,434,548	57,171,364
Receivables from co-venturers		7,983,565	4,101,401
Receivables from transportation cost		3,154,125	1,877,993
Other accounts receivable		21,642	11,831
	$	110,593,880	63,162,589

Receivables from oil sales: The majority of accounts receivable are from oil sales to the Kurdistan Regional Government (KRG) as purchaser of the Company's oil. The recorded amounts of $99.4 million and $57.2 million at December 31, 2019 and 2018, respectively, are owed to the Company and its co-venturer. A corresponding payable of $22.4 million and $12.9 million, at

December 31, 2019 and 2018, respectively, is recorded in revenues payable on the accompanying balance sheets for the portion of this receivable due to the Company's co-venturer.

Receivables from co-venturer: The Company's co-venturer are billed monthly for their portion of forecasted capital spending in advance, with amounts due from or owed to the co-venturer from the previous month netted against the current funding request. At both December 31, 2019 and 2018, the amount of receivables due from the Company's co-venturer exceeded the amount of cash advances paid, resulting in a net receivable position of $8.0 million and $4.1 million, respectively.

Receivables for transportation cost: The Company incurs transportation and oil unloading expenses to deliver oil produced from its wellsite facilities to the sales location, which is an injection facility linked to the KRG export pipeline. The KRG reimburses the Company for transportation cost proportionate to their entitled production as participant to the Production Sharing Contract (PSC). Accounts receivable at December 31, 2019 and 2018 included $3.2 million and $1.9 million, respectively, for KRG transportation cost paid by the Company and its co-venturer. See further discussion in note 2(l).

Other accounts receivable: Other accounts receivable included less than $0.1 million of employee and payroll receivables at both December 31, 2019 and 2018, respectively.

All accounts receivable are recorded at invoiced amounts and do not bear interest.

(f) Major Customers

The Company sells 100% of its production volumes to the KRG. The KRG currently controls all marketing and crude exports from Kurdistan.

(g) Revenue Recognition

The Company recognizes revenue according to the sales method, which is based on the volumes sold at the delivery point agreed to in the sales contract with the KRG. Revenue is recognized when the KRG obtains control of the product, the performance obligations under the terms of the contract are satisfied, and when collectability is probable.

As discussed above, the Company adopted the new guidance on Revenue Recognition (Topic 606) effective January 1, 2019 and evaluated the potential impact from adoption. The Company currently has one revenue contract with the KRG that contains one distinct performance obligation, which is the obligation to sell the contractor entities' entitlement of crude oil to the KRG at the delivery point agreed to in the sales contract. The transaction price is defined per the contract and is 100% allocated to the sole performance obligation. Further, the Company recognizes revenue at the delivery point, when its performance obligation is satisfied. There was no impact to these aspects of revenue recognition as a result of adoption, and therefore no impact to the timing of revenue recognized, results of operations or cash flows.

The Company records revenue in the month production is delivered to the KRG based upon actual production deliveries and known pricing. As such, for the year ended December 31, 2019, there was no revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods.

As the term of the contract with the KRG had an original contract term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14(a), which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under the contract, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required.

Performance obligations under the Company's contract are typically satisfied at a point-in-time through delivery of each unit (barrel) of oil. Once performance obligations have been satisfied, payment is considered unconditional. Accordingly, the Company's contracts do not give rise to contract assets or liabilities. There is no significant financing component to the Company's revenue contract.

(h) Oil Transportation Expense

As stated above, the Company incurs transportation and oil unloading expenses related to delivery of their proportionate share of entitled production to the sales location. The expenses are presented as oil transportation expenses on the accompanying statement of operations for the years ended December 31, 2019 and 2018.

(i) General and Administrative Costs

Specifically identifiable general and administrative costs are capitalized pursuant to the full cost method of accounting, and do not include costs related to production operations, general corporate overhead, or similar activities. The Company capitalized $4.0 million and $3.0 million of these costs for the years ended December 31, 2019 and December 31, 2018, respectively.

(j) Inventory

Inventory consists of amounts paid toward ownership of well equipment, parts, and supplies, which the Company plans to use in its ongoing development activities in the Sarsang block in Kurdistan and which are carried at recoverable cost. As of December 31, 2019 and 2018, $13.5 million and $11.7 million, respectively, of these assets were included as inventory on the accompanying balance sheets. As of December 31, 2018, the inventory balance included $4.0 million related to the acquired amount of Marathon's interest in the Company's inventory at the date of acquisition (see further discussion in note 4). This is included in the "Purchase of Marathon interest" caption on the accompanying statement of cash flows for the year ended December 31, 2018.

(k) Property and Equipment

The Company utilizes the full cost method of accounting for its oil and gas properties. Under this method, all costs associated with the acquisition, exploration, and development of oil and gas properties, including geological and geophysical expenses, dry holes, capitalized interest, and overhead charges directly related to acquisition, exploration, and development, are capitalized in cost centers on a country-by-country basis. Proceeds received from disposals are credited against accumulated cost, except when the sale represents a significant disposal of reserves, in which case a gain or loss is recognized.

The sum of net capitalized costs and estimated future development and dismantlement costs for each cost center is depleted on the unit-of-production method, based on proved oil and natural gas reserves. Costs associated with unevaluated properties are excluded from the calculation of depletion. These costs are transferred into the amortization base as the projects are evaluated and proved reserves are established or impairment is determined.

According to the full cost method as prescribed by FASB Accounting Standards Codification (ASC) Subtopic 932-10-S99, *SEC Materials*, the Company computes a limitation on capitalized costs, or ceiling test, performed at the end of each reporting period. The ceiling test involves comparing the net book value of the full cost pool, after taxes, to the full cost ceiling limitation defined below. In the event the full cost ceiling limitation is less than the full cost pool, a ceiling test write-down of oil and gas properties equal to the value of the full cost ceiling limitation is required. The full cost ceiling limitation is computed as the sum of the present value of estimated future net revenues from proved reserves by applying average monthly prices received over the previous 12 months, less estimated future expenditures (based on current costs) to develop and produce the proved reserves, discounted at 10%, plus the cost of properties not being amortized and the lower of cost or estimated fair value of unevaluated properties included in the costs being amortized. The Company's revenue, future cash flows and ability to recover the carrying value of their oil and gas properties depend substantially upon oil prices. For the years ended December 31, 2019 and 2018, the ceiling was higher than the capitalized costs of oil properties and no impairment charge was necessary.

Other property and equipment, which consist of containers, automobiles, leasehold improvements, office furniture, and other equipment are carried at cost. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 7 years.

(l) Trade and Other Payables

The table below displays the balances included in trade and other payables in the accompanying balance sheets at December 31, 2019 and 2018.

		December 31	
		2019	**2018**
Trade and other payables:			
Accounts payable	$	44,780,516	33,508,638
Transportation payable		3,867,896	3,793,647
Accrued expenses		3,551,802	3,152,550
Contract obligations		1,083,095	741,065
	$	53,283,309	41,195,900

Transportation payable: As discussed in note 2(e), the Company incurs transportation and oil unloading expenses to deliver oil produced from its wellsite facilities to the sales location. A payable of $3.9 million and $3.8 million at December 31, 2019 and 2018, respectively, is recorded on the accompanying balance sheets, which is comprised of the portion of this receivable due to the Company's co-venturer and amounts due to transportation providers.

Accrued expenses: At December 31, 2019 and 2018, accrued expenses is comprised of $3.4 million and $3.1 million, respectively, of accrued compensation and $0.2 million and less than $0.1 million of other accrued expenses, respectively.

Contract obligations: At December 31, 2019 and 2018, the Company accrued $1.1 million and $0.7 million, respectively, of development costs required under the Sarsang PSC.

All trade and other payables are predominantly short term in nature and do not bear interest.

(m) Future Abandonment Cost

In accordance with ASC Subtopic 410-20, *Asset Retirement and Environmental Obligations*, the Company records the fair value of a liability for a retirement obligation in the period in which the liability is incurred and when a reasonable estimate of fair value can be made. Fair value is estimated using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation include estimates of: (i) plug and abandon costs per well based on existing regulatory requirements; (ii) remaining life per well; (iii) future inflation factors; and (iv) a credit-adjusted risk-free interest rate. The future abandonment cost is capitalized as part of the carrying amount of the oil and gas property at its discounted fair value. The liability is then accreted each period until the liability is settled or the well is sold, at which time the liability is reversed. As of December 31, 2019 and 2018, $4.6 million and $3.8 million, respectively, of future abandonment cost were recognized on the Company's accompanying balance sheets. See note 6 for further discussion.

(n) Interest-bearing Liabilities

All financial liabilities are recognized initially at fair value, net of any discount in issuance and transaction costs incurred. Liabilities are subsequently carried at amortized cost. Fees paid on the establishment of loan facilities are recognized as debt issuance costs when the draw-down of the loan occurs. Any difference between the proceeds (net of debt issuance costs) and the redemption value is recognized as interest expense in the statement of operations using the straight-line method. See note 11 for further discussion.

(o) Taxes

The income tax basis results of realized operations of the Company are included in the United States federal income tax returns of the Company's shareholders. Due to the nature of the Company's activities and its organization as a Cayman company limited by shares, state income taxes are generally not imposed on the Company. As such, no provision or credit for federal or state income taxes is recorded in the accompanying financial statements. The Company's tax returns and the amount of allocable income or loss are subject to examination by United States taxing authorities.

HKN Energy files an annual tax return with the Kurdistan Regional Government (KRG) that has resulted in no tax liability owed to the KRG through the date of this report. Under the terms of the Sarsang Production Sharing Contract, payment of any corporate income tax assessed in Kurdistan is to be paid by the KRG for the account of the Company and its co-venturer from the KRG's share of profit petroleum.

(3) Production Sharing Contract

In November 2007, HKN Energy entered into a Production Sharing Contract (PSC) with the KRG for the Sarsang block in northern Kurdistan. A joint operating agreement (JOA) between HKN Energy, Marathon Oil Corporation (Marathon), and TEPKRI Sarsang A/S (formerly Maersk Oil Kurdistan A/S) (Total) has governed joint operations in the Sarsang block until August 2018 when HKN Energy acquired Marathon's interest (see discussion in note 4). Following the acquisition, HKN Energy has a working and production sharing (PSC interest) of 77.5% and 62%, respectively (including the working and PSC interest of 25% and 20%, respectively, acquired from Marathon), and Total has a working and PSC interest of 22.5% and 18%, respectively. The remaining 20% PSC interest is retained by the KRG. Under the Sarsang PSC, HKN Energy and Total (together, the Contractor entities) bear the risks and costs of exploration, development, and production activities at their respective interests. Proceeds from the sale of crude oil and gas is distributed among the contractor entities and the KRG as follows:

(a) The KRG is entitled to royalties of 10% of production from the Contract Area; in cash or in-kind. The remaining production is referred to as available crude oil or available gas,

(b) Each contractor entity is entitled to recover costs incurred in the conduct of petroleum operations in the amount of their working interest applied to 43% of all available production,

(c) Each contractor entity's share of remaining petroleum revenues (profit petroleum) is equal to the amount of their PSC interest applied to a range of 15-35%, based upon an "R" factor where "R" equals cumulative revenues divided by cumulative costs,

(d) Each contractor entity is required to pay 20% of their profit petroleum entitlement to the KRG as a capacity building fund payment.

The Company faces specific risks related to doing business in Kurdistan as a result of the historical, legal, and financial position of the KRG and its relationships with the Federal Government of Iraq and other neighboring countries. These include, but are not limited to, the following risks and uncertainties.

- The validity of PSCs entered into by the KRG has been historically contested in public statements made by officials of the Iraq Oil Ministry, with the assertion that the KRG Oil Law (which, among other things, confers upon the KRG the right to enter into PSCs covering territory under the jurisdiction of the KRG) violates the Iraqi Constitution. The Company does not agree with the assertions of the Iraqi Oil Ministry based on its analysis of the Iraqi Constitution and KRG Oil Law and has no reason to believe its PSC is not a valid contract, or that HKN Energy does not have good title to its oil and natural gas assets.
- There has been a historical precedent of delinquent payments made to oil and gas producers in the region from the KRG. All payments due for invoiced oil sales through October 31, 2019 have been received in full as of the date of this report. HKN believes receivables for November and December 2019 will be collected in full.

(4) Acquisition of Marathon Interest

As stated in note 3, in August 2018, the Company acquired Marathon's entire interest in the Sarsang block. In exchange for the purchase price, the Company assumed the incremental rights and obligations of Marathon's acquired interest, including a working capital settlement of $12.6 million, which was

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subsequently received. The purchase price consisted of a $2.5 million down payment made in 2017 and cash payments of $43.9 million made in 2018, along with related transaction costs of $0.7 million. In accordance with FASB ASU 2017-01, the acquisition was accounted for as an asset acquisition pursuant to the guidance in FASB ASC 805-50. Accordingly, the asset acquisition was accounted for prospectively at cost (including transaction costs), which was allocated between identifiable assets acquired on a relative fair value basis, shown below:

		Purchase price allocation
Cash consideration paid	$	46,380,920
Transaction costs incurred		669,103
Working capital settlement		(12,612,237)
Total purchase price	$	34,437,786
Proved oil and gas properties	$	31,520,909
Inventory (see note 2)		3,950,126
Asset retirement obligation assumed (see note 7)		(1,033,247)
Total assets acquired	$	34,437,788

(5) Oil and Gas Properties

During 2019 and 2018, $135.6 million and $54.8 million, respectively, was incurred in development costs. Additionally in 2018 as a result of the Marathon acquisition (see Note 4), the Company recorded $31.5 million in proved property additions. Development costs incurred included capitalized general and administrative costs and estimated future abandonment cost and are included in oil and gas properties on the accompanying balance sheets. As of December 31, 2019 and 2018, $1.1 million and $0.7 million, respectively, of development costs were accrued as contract obligations within trade and other payables on the accompanying balance sheet (see note 2(l)).

At December 31, 2019 and 2018, the Company had recognized $568.1 million and $432.6 million, respectively, in evaluated oil and gas properties, subject to depletion, on the balance sheets. As of both December 31, 2019 and 2018, there were no unproved and unevaluated properties included on the accompanying balance sheets.

(6) Future Abandonment Cost

In accordance with FASB ASC Subtopic 410-20, *Asset Retirement and Environmental Obligations*, the Company has asset retirement obligations associated with future plugging and abandonment costs on its oil and gas properties and related disposal facilities. A liability for future abandonment cost is recorded at fair value in the period in which it is incurred and can be reasonably estimated, and a corresponding increase is recorded in the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized. The

following table summarizes the changes in the Company's asset retirement obligation recorded in future abandonment cost on the accompanying balance sheets.

		December 31	
		2019	**2018**
Beginning future abandonment cost	$	3,819,684	2,195,722
Liability assumed from acquisition of Marathon interest (see Note 4)		—	1,033,247
Liability incurred upon drilling wells		634,714	480,188
Accretion expense		174,580	110,527
Total	$	4,628,978	3,819,684

(7) Related-Party Transactions

On a periodic basis, net amounts due to and from affiliates under common control are settled through cash payments and cash receipts from affiliates. During 2019 and 2018, the Company paid general and administrative expenses of $0.9 million and $0.5 million, respectively, to related entities for management and administrative services provided to the Company, and rent. At both December 31, 2019 and 2018, there was a net related party receivable outstanding of less than $0.1 million on the accompanying balance sheets.

(8) Share Transactions

In August 2018, upon closing the acquisition of the Marathon interest (discussed in note 4), all of the outstanding common shares of HKN Energy were redesignated as Class A common shares and a new share Class B was authorized by the Company's board of directors. The redesignated Class A shares hold voting, capital and income rights attached to the 52.5% working and 42% participating interest in the Sarsang PSC held by the Company prior to the acquisition of the Marathon interest, and the Class B shares hold voting, capital, and income rights attached to the interest acquired from Marathon. After the Class B common shares were authorized, 15,830 shares were sold to a related party in exchange for $47.5 million and $3.2 million, which included the down payment of $2.5 million to Marathon made in 2017 and transaction costs incurred related to the acquisition. This amount was contributed to the Company upon purchasing the Class B shares and is included as an initial contribution of assets from the Class B shareholder on the accompanying statement of shareholders' equity. After the Class B shares were sold, a $0.4 million cash distribution was made to the Class B shareholder.

In 2019, the Company did not receive any cash contributions from, or make any cash distributions to, its Class A common shareholder. In 2018, the Company received $1.1 million in net cash contributions (comprised of $86.7 million in contributions and $85.6 million in distributions) as recorded in the accompanying statement of shareholders' equity. No shares were purchased in exchange for amounts distributed.

For the year ended December 31, 2019, net income attributable to the Company's Class A and Class B common shareholders was $35.6 million and $17.0 million, respectively. For the year ended December 31, 2018, net income attributable to the Company's Class A and B common shareholders was $40.8 million and $6.0 million, respectively.

(9) Share-Based Compensation

Incentive Plan Summary

The HKN Holding Ltd. Long Term Incentive Plan (LTIP), became effective May 1, 2012. The LTIP, which was administered by the HKN Holding Ltd. Board of Directors (the Board), permitted granting up to 100,000 restricted share units of HKN Holding shares to employees of HKN Energy. The restricted share units vested upon completion of three years of continuous service. Upon vesting of units, HKN Holding would issue payment either in cash (equal to the fair market value of the units on the vesting date) or in the form of common shares (at 10 newly issued common shares of HKN Holding for each vested unit), at the discretion of the Board; provided, however, that at least fifty percent of the payments would be in the form of cash unless HKN Holding issued publicly traded securities as payment for the vested units.

The Board reserved the right to amend or terminate the LTIP at any time for any reason; provided, however, that no amendment or termination would adversely impact any outstanding restricted share units.

Accounting for Share-Based Compensation

The Company accounted for share-based compensation under the LTIP according to FASB ASC Topic 718 guidance for parent shares granted to employees of a subsidiary. The Company recognized expense for share-based compensation over the requisite service period in an amount equal to the fair value of the restricted share units granted to employees. The fair value was then remeasured at each reporting date through the settlement date with the change in fair value recognized as an adjustment to compensation expense over that period, with a corresponding credit to additional paid-in capital (APIC), representing a contribution from HKN Holding.

The Board terminated the LTIP as of December 31, 2018, and as such the Company extinguished the share-based compensation liability related to all 2017 grants not yet vested, which represented 52 restricted share units. The Company paid out $0.1 million in cash and $0.3 million in shares during 2018 for grants previously vested.

(10) Commitments and Contingencies

The Company is not currently a party to any litigation that it believes would have a materially adverse effect on the Company’s business, financial condition, results of operations, or liquidity.

(a) Operating Lease Commitments

The Company leases office space under lease agreements expiring on various dates through 2024. The Company recognized expense under operating leases of $0.2 million and $0.1 million for the years ended December 31, 2019 and 2018, respectively, included in general and administrative expenses on the accompanying statement of operations.

As of December 31, 2019, future minimum lease payments were as follows:

2020	$	112,513
2021		249,480
2022		253,935
Thereafter		521,235
	$	1,137,163

(b) PSC Commitments

HKN Energy and its co-venturer have certain commitments defined by the PSC that are contingent upon the timing and length of the exploration, development, and production periods. These include Contractor obligations of $0.3 million due in each year and total aggregate payments of up to $37.5 million due upon meeting four defined thresholds during the development phase of the PSC, of which $2.5 million and $5 million was paid by the Contractor to the KRG in 2014 and 2018, respectively. The Company's working interest share of the $5 million production bonus paid in 2018 is capitalized within evaluated properties on the accompanying balance sheet as of December 31, 2018. The third and fourth defined production thresholds will be reached when production from the contract area reaches a cumulative amount of 25 million and 50 million barrels of crude oil, respectively, and $10 million and $20 million, respectively, will be owed by the Contractor to the KRG. The Company anticipates reaching the third production threshold in 2020.

In addition, 20% of HKN Energy's profit petroleum is committed to a capacity building fund as set forth in the PSC. These capacity building payments are deducted from HKN Energy's entitlement share of profit petroleum on a monthly basis.

(11) Debt and Interest Expense, Net

On March 6, 2019, the Company closed on a five-year unsecured bond of $100 million with semi-annual interest payments at a coupon rate of 11%. The bond matures on March 6, 2024. At December 31, 2019, bonds payable, net of debt issuance costs and fees, were $97.7 million. The bonds payable balance is comprised of $100 million in bonds payable, net of $2.3 million in net debt issuance costs and fees ($2.7 million of debt issuance costs and fees net of $0.4 million of amortization). The net proceeds from the bond have been and will continue to be used to fund ongoing operations of the Company. At December 31, 2019, accrued interest was $3.5 million, included on the accompanying balance sheet, and bond interest expense was $9.0 million, included within interest expense, net on the accompanying statement of operations. The first interest payment was paid on September 6, 2019 in the amount of $5.5 million.

Per the bond's financial covenants, the Company must maintain a minimum Equity Ratio of 40%, and a minimum liquidity of 1.5 times the estimated next 12 months interest based on the outstanding debt as of the calculation date. As of December 31, 2019, the Company was in compliance with all required financial covenants.

For the years ended December 31, 2019 and 2018, interest expense, net was $7.4 million and $0, respectively, and consisted of the following:

	December 31,	
	2019	2018
Interest expense on bond	$ 8,983,333	—
Amortization of bond issuance costs and fees	457,372	—
Interest income from money market account	(2,022,761)	—
Total	$ 7,417,944	—

As noted above in the table, the Company earned $2.0 million in interest income on cash held in a Bank of America money market account for the year ended December 31, 2019. Interest receivable at December 31, 2019 was $0.1 million, included on the accompanying balance sheet.

(12) Subsequent Events

The Company has been closely monitoring the growing impact of the novel coronavirus (COVID-19) on our operations and forecasted cash flows. The KRG has implemented multiple safety measures to protect the people in the region, including limitations on the movement of people and goods. Furthermore, similar safety measures put in place around the world as a response to COVID-19 have caused sharp decreases in crude oil demand and market prices for crude oil. As a response to both the limitations of movement and a lower crude oil price environment, the Company is postponing capital expenditures, reducing operating costs and has paused production operations at one facility.

The Company has evaluated subsequent events from the balance sheet date through April 15, 2020, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.