HKN ENERGY LTD.

Interim Financial Statements

June 30, 2020

(Unaudited)

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

Independent Auditors' Review Report

The Board of Directors
HKN Energy, Ltd.:

Report on the Financial Statements

We have reviewed the accompanying balance sheet of HKN Energy, Ltd. (the Company) as of June 30, 2020, and the related statements of operations, shareholder's equity, and cash flows for the six-month periods ended June 30, 2020 and 2019.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
August 26, 2020

HKN ENERGY LTD.

Balance Sheets

June 30, 2020 and December 31, 2019

(Unaudited)

Assets		**June 30, 2020**	**December 31, 2019**
Current assets:			
Cash and cash equivalents	$	80,569,827	83,071,120
Restricted cash		6,708,183	—
Accounts receivable		107,006,961	110,593,880
Interest receivable		7,064	114,404
Derivative assets - short term		593,530	—
Prepaid expenses		572,778	1,215,616
Inventory		13,966,761	13,538,109
Related party receivable		122,734	33,713
Total current assets		209,547,838	208,566,842
Properties and equipment, at cost – full cost method:			
Evaluated properties, subject to depletion		611,447,633	568,131,513
Accumulated depletion		(149,804,566)	(121,989,261)
		461,643,067	446,142,252
Other property and equipment		7,752,772	7,114,311
Accumulated depreciation		(4,221,226)	(3,712,640)
		3,531,546	3,401,671
Total assets	$	674,722,451	658,110,765
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	$	45,373,866	53,283,309
Accrued interest		3,719,146	3,483,333
Revenues payable		21,972,825	22,372,773
Total current liabilities		71,065,837	79,139,415
Long-term debt, net of debt issuance costs and fees		134,288,664	97,713,141
Future abandonment cost		5,157,775	4,628,978
Total liabilities		210,512,276	181,481,534
Common stock, $0.01 par value 5,000,000 shares authorized,			
33,250 Class A shares issued and outstanding at June 30, 2020 and December 31, 2019, and		333	333
15,830 Class B shares issued and outstanding at June 30, 2020 and December 31, 2019		158	158
Additional paid-in capital		540,198,469	540,198,469
Accumulated deficit		(75,988,785)	(63,569,729)
Total shareholders' equity		464,210,175	476,629,231
Total liabilities and shareholders' equity	$	674,722,451	658,110,765

See accompanying notes to financial statements

HKN ENERGY LTD.

Statements of Operations

Six months ended June 30, 2020 and 2019

(Unaudited)

	2020	2019
Revenues:		
Oil sales	$ 53,358,213	98,118,423
Total revenues	53,358,213	98,118,423
Expenses:		
Operating expenses	18,307,679	19,999,507
Oil transportation expenses	2,412,054	4,412,591
Depletion, depreciation and amortization	28,426,821	26,000,268
General and administrative	9,395,726	8,766,865
Total expenses	58,542,280	59,179,231
Operating income (loss)	(5,184,067)	38,939,192
Other expenses:		
Interest expense, net	(5,829,976)	(2,718,976)
Realized loss on derivatives	(279,000)	—
Unrealized loss on derivatives	(1,080,470)	—
Other expenses	(45,543)	(68,498)
Total other expense	(7,234,989)	(2,787,474)
Net income (loss)	$ (12,419,056)	36,151,718

See accompanying notes to financial statements

HKN ENERGY LTD.

Statement of Shareholders' Equity

Six months ended June 30, 2020 and 2019

(Unaudited)

	Common stock			Additional	Accumulated	
	Shares		Amounts	paid-in capital	deficit	Total
Balance – January 1, 2019	49,080	$	491	540,198,469	(116,162,381)	424,036,579
Net income allocated to Class A shareholders	—		—	—	24,491,538	24,491,538
Net income allocated to Class B shareholders	—		—	—	11,660,180	11,660,180
Balance – June 30, 2019	49,080	$	491	540,198,469	(80,010,663)	460,188,297
Balance – January 1, 2020	49,080	$	491	540,198,469	(63,569,729)	476,629,231
Net loss allocated to Class A shareholders	—		—	—	(8,413,480)	(8,413,480)
Net loss allocated to Class B shareholders	—		—	—	(4,005,576)	(4,005,576)
Balance – June 30, 2020	49,080	$	491	540,198,469	(75,988,785)	464,210,175

See accompanying notes to financial statements

HKN ENERGY LTD.

Statements of Cash Flows

Six months ended June 30, 2020 and 2019

(Unaudited)

		2020	2019
Operating activities:			
Net income (loss)	$	(12,419,056)	36,151,718
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		28,426,821	26,000,268
Amortization of debt issuance costs and fees		361,711	182,870
Derivative loss		1,359,470	—
Cash paid for commodity derivatives		(1,953,000)	—
Change in operating assets and liabilities:			
Accounts receivable		3,586,919	(4,819,544)
Interest receivable		107,340	(204,252)
Related party accounts		(89,021)	(6,589)
Prepaid expenses		642,838	(527,089)
Accounts payable and accrued expenses		(2,932,682)	(3,179,748)
Accrued interest		235,813	3,483,334
Revenues payable		(399,948)	2,008,381
Transportation payable		(1,200,850)	34,846
Net cash provided by operating activities		15,726,355	59,124,195
Investing activities:			
Development of oil and gas properties		(47,431,518)	(58,822,388)
Purchases of other property and equipment		(301,759)	(1,677,374)
Net cash used in investing activities		(47,733,277)	(60,499,762)
Financing activities:			
Proceeds from issuance of debt, net of fees		37,059,000	97,500,000
Debt issuance costs		(845,188)	(243,050)
Net cash provided by financing activities		36,213,812	97,256,950
Increase in cash and restricted cash		4,206,890	95,881,383
Cash and restricted cash – beginning of period		83,071,120	32,715,348
Cash and restricted cash – end of period	$	87,278,010	128,596,731
Cash paid for interest	$	5,500,000	—
Noncash capital expenditures in liabilities at period end	$	21,126,124	8,946,594

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) Interim Financial Statements

The Company's unaudited financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial reporting. Accordingly, these financial statements do not include all of the footnotes required by U.S. GAAP for annual audited financial statements of the type contained in the Company's annual reports. In the opinion of the management of the Company, all adjustments necessary for a fair presentation of the Company's balance sheet as of June 30, 2020 and 2019, and the results of operations, changes in shareholders' equity, and cash flows for the six months ended June 30, 2020 and 2019 have been made. All such adjustments are of a normal recurring nature. Results for such interim periods are not necessarily indicative of the results of operations for the full year.

These unaudited interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the HKN Energy Ltd. 2019 Annual Financial Statements.

(3) 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. Additionally, the asset retirement obligation is an estimate that requires assumptions concerning future events and substantial judgment.

(4) Summary of Significant Accounting Policies

(a) Risks and Uncertainties

The Company's success is dependent on the price of oil, as 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. During the six months ending June 30, 2020, the average price of oil was approximately $40.07 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.

(Continued)

The Company has also 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 illustrated above. As a response to both the limitations of movement and a lower crude oil price environment, the Company has focused on postponing capital expenditures, reducing operating costs and has paused production operations at one facility.

(b) Cash and Cash Equivalents

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

(c) Accounts Receivable

The table below displays the balances included in accounts receivable in the accompanying balance sheets at June 30, 2020 and December 31, 2019.

		June 30, 2020	December 31, 2019
Accounts receivable:			
Receivables from oil sales	$	97,657,001	99,434,548
Receivables from co-venturer		6,502,715	7,983,565
Receivables for transportation cost		2,839,088	3,154,125
Other accounts receivable		8,157	21,642
Total	$	107,006,961	110,593,880

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 $97.7 million and $99.4 million at June 30, 2020 and December 31, 2019, respectively, are owed to the Company and its co-venturer. A corresponding payable of $22.0 million and $22.4 million, at June 30, 2020 and December 31, 2019, respectively, is recorded in revenues payable on the accompanying balance sheets for the portion of this receivable due to the Company's co-venturer. All payments due for invoiced oil sales through June 30, 2020 have been received in full as of the date of this report, with the exception of oil sales for the months November 2019 through February 2020 amounting to $86.2 million ($66.7 million net to the Company). The Company continues to be in correspondence with the KRG regarding the collectability of these receivables and believes they will be collected in full.

Receivables from co-venturer: The Company's co-venturer is 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 June 30, 2020 and December 31, 2019, 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 $6.5 million and $8.0 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 June 30, 2020 and December 31, 2019 included \$2.8 million and \$3.2 million, respectively, for KRG transportation cost paid by the Company and its co-venturer. See further discussion in note 2(j).

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

(d) Major Customers

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

(e) Revenue Recognition

The Company recognizes revenues 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.

The Company adopted the new guidance on Revenue Recognition (ASU 2014-09, Topic 606) effective January 1, 2019. 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 six months ended June 30, 2020, 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 as payment is typically required within sixty days of delivery.

(f) 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 six months ended June 30, 2020 and 2019.

(g) 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 $1.4 million and $2.2 million of these costs for the six months ending June 30, 2020 and 2019, respectively.

(h) 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 June 30, 2020 and December 31, 2019, $14.0 million and $13.5 million of these assets were included as inventory on the accompanying balance sheets.

(i) Property and Equipment

The Company utilizes the full cost method of accounting for its oil and gas properties. Under this method, the Company is required to perform a ceiling test each quarter that determines a limit, or ceiling, on the capitalized costs of oil and gas properties based primarily on the estimated future net cash flows from oil using a 10% discount rate and the arithmetic average of first-day-of-month oil prices for the prior 12-month period. As of June 30, 2020 and 2019, the ceiling was higher than the capitalized costs of oil properties and no impairment charge was necessary for the six months ended June 30, 2020 and 2019. Under the full cost method of accounting, interest is capitalized only for assets excluded from depletion as they are not related to reserves currently under development. As there were no assets excluded from depletion, no interest was capitalized for the six months ended June 30, 2020 and 2019.

(j) Trade and Other Payables

The table below displays the balances included in trade and other payables in the accompanying balance sheets at June 30, 2020 and December 31, 2019.

		June 30, 2020	December 31, 2019
Trade and other payables:			
Accounts payable	$	29,560,223	44,780,516
Transportation payable		2,667,046	3,867,896
Accrued expenses		1,892,487	3,551,802
Contract obligations		11,254,110	1,083,095
	$	45,373,866	53,283,309

Transportation payable: As discussed in note 2(c), the Company incurs transportation and oil unloading expenses to deliver oil produced from its wellsite facilities to the sales location. A payable of $2.7 million and $3.9 million at June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, accrued expenses is comprised of $1.7 million and $3.4 million, respectively, of accrued compensation and $0.2 million and $0.2 million of other accrued expenses, respectively.

Contract obligations: At June 30, 2020 and December 31, 2019, the Company accrued $11.3 million and $1.1 million, respectively, of development costs required under the Sarsang PSC. Contract obligations accrued at June 30, 2020 included the $10 million production bonus ($7.8 million net to the Company) discussed further in note 9.

(5) 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. 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.

(6) Future Abandonment Cost

The following table summarizes the changes in the Company's asset retirement obligation recorded in future abandonment cost for the six months ended June 30, 2020 and the year ended December 31, 2019, respectively:

		June 30, 2020	December 31, 2019
Beginning future abandonment cost	$	4,628,978	3,819,684
Liability incurred upon drilling wells		425,867	634,714
Accretion expense		102,930	174,580
Total	$	5,157,775	4,628,978

(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 the six months ended June 30, 2020 and 2019, the Company paid general and administrative expenses of $0.5 million and $0.4 million, respectively, to related entities for management and administrative services provided to the Company, and rent. As of June 30, 2020 and December 31, 2019, there was a net related party receivable outstanding of $0.1 million and less than $0.1 million, respectively, on the accompanying balance sheets.

(8) Share Transactions

During the six months ended June 30, 2020 and June 30, 2019, the Company did not receive any net cash contributions from or make any net cash distributions to its Class A common shareholder.

For the six months ended June 30, 2020, net loss attributable to the Company's Class A and Class B common shareholders was $8.4 million and $4.0 million, respectively. For the six months ended June 30, 2019, net income attributable to the Class A and Class B common shareholders was $24.5 million and $11.7 million, respectively.

(9) Commitment 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.

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 third defined production threshold of 25 million barrels of crude oil was met in April 2020, and the required $10 million was agreed to be netted against future oil sales receivables from the KRG. The Company's working interest share of the $5 million production bonus paid in 2018 and the $10 million production bonus met in 2020 is capitalized within evaluated properties on the accompanying balance sheet as of June 30, 2020. The fourth defined production threshold will be reached when production from the contract area reaches a cumulative amount of 50 million barrels of crude oil and $20 million will be owed by the Contractor to the KRG.

In addition, 20% of HKN Energy's profit petroleum is committed to a capacity building fund as set forth in the PSC. HKN Energy plans to settle all obligations through either cash payments to the KRG or through satisfying these commitments in-kind, through programs approved by the KRG.

(10) Long-Term Debt and Interest Expense, Net

On May 5, 2020, the Company closed on a 9 year loan of $49 million from the United States International Development Finance Corporation in order to finance the development of a 25,000 barrel per day production facility on the Sarsang Block. The loan matures on May 15, 2029. The Company received the first installment payout of $37.5 million on May 27, 2020. The first installment bears interest at a rate of 6.86% (5.75% stated interest rate plus a 1.11% rate necessary to fund the loan through the marketing of the lender's certificates of participation). Per the loan terms, the Company must establish an account and keep it funded up to the Debt Service Reserve Requirement, which equals amounts due on the loan for the immediately succeeding six months. Therefore, the Company had $1.2 million in a debt service reserve for the loan included as restricted cash on the accompanying balance sheet at June 30, 2020. Per the loan's financial covenants, the Company must maintain a Reserve Tail Ratio of no less than 20%, a ratio of Current Assets to Current Liabilities of 1:1, and funds or assets on deposit with a market value at least equal to the Debt Service Reserve Requirement (see discussion above). Upon completion of the production facility the Company must maintain a ratio of Net Cash Flow to Debt Service of not less than 1.4 to 1 for both the most recently completed and the next succeeding four consecutive full fiscal quarters. As of June 30, 2020, the Company was in compliance with all required financial covenants. The Company expects to remain in compliance with all of the loan's required financial covenants for a period of one year from the date the financial statements are ready to be issued.

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. Per the bond terms, the bond should be on a pari passu basis with any additional debt the Company secures. Therefore, as a result of the Company securing the loan discussed above, the Company had $5.5 million (six months of interest) in a debt service reserve for the bond included as restricted cash on the accompanying balance sheet at June 30, 2020. 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 June 30, 2020, the Company was in compliance with all required financial covenants. The Company expects to remain in compliance with all of the bond's required financial covenants for a period of one year from the date the financial statements are ready to be issued.

The net proceeds from the debt instruments have been and will continue to be used to fund ongoing operations of the Company. At June 30, 2020 and December 31, 2019, total long-term debt, net of debt issuance costs and fees, was $134.3 million and $97.7 million, respectively, and consisted of the following:

		June 30, 2020	**December 31, 2019**
Long-term debt, net of debt issuance costs and fees:			
Debt payable	$	137,500,000	100,000,000
Debt issuance costs and fees		(4,030,419)	(2,744,230)
Amortization of debt issuance cost and fees		819,083	457,371
	$	134,288,664	97,713,141

The following table provides a summary of the Company's principal payments on long-term debt instruments by year they are due:

2020	$	—
2021		—
2022		2,678,571
2023		5,357,143
2024		105,357,143
Thereafter		24,107,143
	$	137,500,000

At June 30, 2020 and December 31, 2019, accrued interest was $3.7 million and $3.5 million, respectively, included on the accompanying balance sheet. For the six months ended June 30, 2020 and 2019, interest expense, net was $5.8 million and $2.7 million, respectively, and consisted of the following:

		June 30, 2020	June 30, 2019
Interest expense, net:			
Cash payments for interest	$	5,500,000	—
Change in interest accrual		235,812	3,483,334
Amortization of debt issuance costs and fees		361,711	182,870
Interest income from money market account		(267,547)	(947,228)
	$	5,829,976	2,718,976

As noted in the table above, for the six months ended June 30, 2020 and 2019, the Company earned $0.3 million and $0.9 million, respectively, in interest income on cash held in a Bank of America money market account. Interest receivable on the account at June 30, 2020 and December 31, 2019 was less than $0.1 million and $0.1 million, respectively, and is included on the accompanying balance sheets.

(11) Derivative Instruments

In May 2020, the Company purchased two Dated Brent put option contracts, which represent options to sell crude oil at a specific exercise price. The options were purchased for a total premium of $2.0 million. Both contracts have identical terms: 100,000 bbls/month for the period June 2020 to December 2020 (total volume of 700,000 bbls), and a strike price of $25/bbl. Monthly settlements are calculated using prices obtained from the counterparties. These derivative financial instruments are not designated as hedging instruments. At June 30, 2020, the derivatives were recorded as current assets on the accompanying balance sheet at a fair value of $0.6 million. The fair value represents the $2.0 million total premium net of a $0.3 million realized loss and a $1.1 million unrealized loss on derivatives, which are included on the accompanying statement of operations. See further discussion on fair value in note 12.

(12) Fair Value Measurements

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, use of unobservable prices or inputs are used to estimate the current fair value, often using an internal valuation model. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the item being valued.

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

Level I – Inputs are adjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. This category includes those derivative instruments that are valued with industry standard models that consider various inputs, including (i) quoted forward prices for commodities, (ii) time value of money and (iii) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these inputs are observable in the marketplace throughout the full term of the derivative instrument and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table summarizes the valuation of the Company's financial assets that were accounted for at fair value on a recurring basis in accordance with the classifications provided above as of June 30, 2020 and December 31, 2019.

		Fair value measurements using			
		Level 1	**Level 2**	**Level 3**	**Total**
June 30, 2020:					
Assets					
Oil derivatives	$	—	593,530	—	593,530
	$	—	593,530	—	593,530
December 31, 2019:					
Assets					
Oil derivatives	$	—	—	—	—
	$	—	—	—	—

Other Fair Value Measurements

The carrying amount of the Company's cash, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of these assets and liabilities. The carrying value of the Company's long-term debt approximated its fair value as both debt instruments are based upon observable inputs and are classified at Level 2 in the fair value hierarchy.

The following table summarizes the carrying values of the Company's long-term debt instruments which approximated fair value as of June 30, 2020 and December 31, 2019.

HKN ENERGY LTD.

Notes to Interim Financial Statements

June 30, 2020

(Unaudited)

		June 30, 2020	December 31, 2019
Debt instrument:			
Bond Payable	$	97,835,419	97,713,141
Loan Payable		36,453,245	—
	$	134,288,664	97,713,141

(13) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through August 26, 2020, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.