HKN ENERGY LTD.

Financial Statements

December 31, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, 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
March 23, 2021

HKN ENERGY LTD.

Balance Sheets

December 31, 2020 and December 31, 2019

Assets		**December 31, 2020**	**December 31, 2019**
Current assets:			
Cash and cash equivalents	$	83,309,096	83,071,120
Restricted cash		6,789,125	—
Accounts receivable - current		63,453,480	110,593,880
Interest receivable		1,726	114,404
Prepaid expenses		358,125	1,215,616
Inventory		14,012,697	13,538,109
Related party receivable		74,677	33,713
Total current assets		167,998,926	208,566,842
Accounts receivable - long-term		27,900,000	—
Properties and equipment, at cost – full cost method:			
Evaluated properties, subject to depletion		632,011,048	568,131,513
Accumulated depletion		(181,460,610)	(121,989,261)
		450,550,438	446,142,252
Other property and equipment		8,412,086	7,114,311
Accumulated depreciation		(4,738,555)	(3,712,640)
		3,673,531	3,401,671
Total assets	$	650,122,895	658,110,765
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	$	19,768,841	53,283,309
Accrued interest		3,804,896	3,483,333
Revenues payable - current		12,991,630	22,372,773
Total current liabilities		36,565,367	79,139,415
Revenues payable - long-term		6,277,500	—
Long-term debt, net of debt issuance costs and fees		134,553,278	97,713,141
Future abandonment cost		6,316,024	4,628,978
Total liabilities		183,712,169	181,481,534
Common stock, $0.01 par value 5,000,000 shares authorized,			
33,250 Class A shares issued and outstanding at December 31, 2020 and December 31, 2019, and		333	333
15,830 Class B shares issued and outstanding at December 31, 2020 and December 31, 2019		158	158
Additional paid-in capital		540,198,469	540,198,469
Accumulated deficit		(73,788,234)	(63,569,729)
Total shareholders' equity		466,410,726	476,629,231
Total liabilities and shareholders' equity	$	650,122,895	658,110,765

See accompanying notes to financial statements

HKN ENERGY LTD.

Statements of Operations

Years ended December 31, 2020 and 2019

	2020	2019
Revenues:		
Oil sales	$ 122,812,873	189,912,614
Total revenues	122,812,873	189,912,614
Expenses:		
Operating expenses	33,538,722	41,111,146
Oil transportation expenses	4,634,989	7,381,802
Depletion, depreciation and amortization	60,704,624	61,778,263
General and administrative	19,117,439	19,504,799
Total expenses	117,995,774	129,776,010
Operating income	4,817,099	60,136,604
Other expenses:		
Interest expense, net	(13,017,685)	(7,417,944)
Realized loss on derivatives	(1,953,000)	—
Other expenses	(64,919)	(126,008)
Total other expense	(15,035,604)	(7,543,952)
Net income (loss)	$ (10,218,505)	52,592,652

See accompanying notes to financial statements

HKN ENERGY LTD.

Statement of Shareholders' Equity

Years ended December 31, 2020 and 2019

	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	—		—	—	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
Balance – January 1, 2020	49,080	$	491	540,198,469	(63,569,729)	476,629,231
Net loss allocated to Class A shareholders	—		—	—	(6,922,683)	(6,922,683)
Net loss allocated to Class B shareholders	—		—	—	(3,295,822)	(3,295,822)
Balance – December 31, 2020	49,080	$	491	540,198,469	(73,788,234)	466,410,726

See accompanying notes to financial statements

HKN ENERGY LTD.

Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Operating activities:			
Net income (loss)	$	(10,218,505)	52,592,652
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization		60,704,624	61,778,263
Amortization of debt issuance costs and fees		773,020	457,371
Change in operating assets and liabilities:			
Accounts receivable		(1,746,936)	(47,431,291)
Interest receivable		112,678	(114,404)
Related party accounts		(40,964)	(6,462)
Prepaid expenses		857,491	(525,138)
Trade and other payables		(5,280,490)	3,672,143
Accrued interest		321,563	3,483,333
Revenues payable		(3,103,643)	9,509,216
Net cash provided by operating activities		42,378,838	83,415,683
Investing activities:			
Development of oil and gas properties		(70,224,590)	(127,779,106)
Purchases of other property and equipment		(1,194,264)	(2,536,575)
Net cash used in investing activities		(71,418,854)	(130,315,681)
Financing activities:			
Proceeds from issuance of debt, net of fees		37,059,000	97,500,000
Debt issuance costs		(991,883)	(244,230)
Net cash provided by financing activities		36,067,117	97,255,770
Increase in cash and restricted cash		7,027,101	50,355,772
Cash and restricted cash – beginning of period		83,071,120	32,715,348
Cash and restricted cash – end of period	$	90,098,221	83,071,120
Cash paid for interest	$	12,204,681	5,500,000
Noncash capital expenditures in liabilities at period end	$	6,482,980	24,902,035

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

(b) Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), effective January 1, 2022 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 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.

(c) 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 2020, the average price of oil was approximately $41.84 per Bbl, based on published Dated Brent Crude Oil daily settlement prices. During 2019, the average price of oil was approximately $64.21 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.

The Company faces specific risks related to doing business in Kurdistan as a result of the historical, legal, and financial position of the Kurdistan Regional Government (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.
- 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 December 31, 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. See further discussion on collectability of these receivables in note 10.

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The table below displays the balances included in cash and restricted cash in the accompanying statement of cash flows at December 31, 2020 and 2019. See note 9 for discussion on the Company's restricted cash balance.

		December 31,	
		2020	**2019**
Cash and cash equivalents	$	83,309,096	83,071,120
Restricted cash		6,789,125	-
Total cash and restricted cash	$	90,098,221	83,071,120

(e) Accounts Receivable

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

		December 31	
		2020	**2019**
Receivables from oil sales - current	$	57,740,576	99,434,548
Receivables from co-venturers		2,672,632	7,983,565
Receivables from transportation cost		3,033,802	3,154,125
Other accounts receivable		6,470	21,642
Total accounts receivable - current	$	63,453,480	110,593,880
Receivables from oil sales - long-term		27,900,000	—
Total accounts receivable - long-term	$	27,900,000	—

Receivables from oil sales: The majority of accounts receivable are from oil sales to the KRG as purchaser of the Company's oil. The recorded amounts of $85.6 million (total of $57.7 million current and $27.9 million long-term) and $99.4 million at December 31, 2020 and 2019, respectively, are owed to the Company and its co-venturer. A corresponding payable of $19.3 million (total of $13.0 million current and $6.3 million long-term) and $22.4 million, at December 31, 2020 and 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 December 31, 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 $86.1 million ($66.7 million net to the Company). In December 2020, the KRG presented a plan to the Company detailing how it would pay the November 2019 through February 2020 oil sales receivables. See note 10 for further discussion.

As of December 31, 2020, the Company determined it was appropriate to present a portion of the outstanding receivables from oil sales as long-term. The amount determined to be long-term was estimated by modeling expected future receivables collection through supplemental invoice payments generated by Dated Brent prices exceeding $50 per Bbl and offsetting of future liabilities to the KRG. The receivables estimated to be collected after 2021 were classified as a long-term receivable. Correspondingly, the co-venturer's share of the receivables was classified as a long-term payable.

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 December 31, 2020 and 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 $2.7 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 December 31, 2020 and 2019 included $3.0 million and $3.2 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 intercompany receivables at both December 31, 2020 and 2019, 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.

The Company adopted the new guidance on Revenue Recognition (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 years ended December 31, 2020 and 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 as payment is typically required in the month following delivery.

(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, 2020 and 2019.

(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 $2.4 million and $4.0 million of these costs for the years ended December 31, 2020 and December 31, 2019, 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, 2020 and 2019, $14.0 million and $13.5 million, respectively, of these assets were included as inventory on the accompanying balance sheets.

(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, 2020 and 2019, the ceiling was higher than the capitalized costs of oil properties and no impairment charge was necessary.

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 years ended December 31, 2020 and 2019.

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, 2020 and 2019.

		December 31	
		2020	2019
Trade and other payables:			
Accounts payable	$	13,952,571	44,780,516
Transportation payable		2,031,237	3,867,896
Accrued expenses		3,728,028	3,551,802
Contract obligations		57,005	1,083,095
	$	19,768,841	53,283,309

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 $2.0 million and $3.9 million at December 31, 2020 and 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 December 31, 2020 and 2019, accrued expenses is comprised of $3.7 million and $3.4 million, respectively, of accrued compensation and less than $0.1 million and $0.2 million of other accrued expenses, respectively.

Contract obligations: At December 31, 2020 and 2019, the Company accrued less than $0.1 million and $1.1 million, respectively, of development costs required under the Sarsang PSC. The balance as of December 31, 2020 is net of the amount of HKN's net share of PSC obligations offset against outstanding oil sales receivables from the KRG (see note 10).

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 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. The obligation 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 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, 2020 and 2019, $6.3 million and $4.6 million, respectively, of future abandonment cost were recognized on the Company's accompanying balance sheets. See note 5 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 or effective interest method. See note 9 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 and TEPKRI Sarsang A/S (formerly Maersk Oil Kurdistan A/S) (Total) governs joint operations in the Sarsang block. 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 working interest percentages. HKN Energy has a working and production sharing (PSC interest) of 77.5% and 62%, respectively, and Total has a working and PSC interest of 22.5% and 18%, respectively. The remaining 20% PSC interest is retained by the KRG. 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.

(4) Oil and Gas Properties

During 2020 and 2019, $63.9 million and $135.6 million, respectively, was incurred in development costs. 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, 2020 and 2019, less than $0.1 million and $1.1 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, 2020 and 2019, the Company had recognized $632.0 million and $568.1 million, respectively, in evaluated oil and gas properties, subject to depletion, on the balance sheets. As of both December 31, 2020 and 2019, there were no unproved and unevaluated properties included on the accompanying balance sheets.

(5) 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 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	
		2020	2019
Beginning future abandonment cost	$	4,628,978	3,819,684
Liability incurred upon drilling wells		1,479,686	634,714
Accretion expense		207,360	174,580
Total	$	6,316,024	4,628,978

(6) 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 2020 and 2019, the Company paid general and administrative expenses of $1.0 million and $0.9 million, respectively, to related entities for management and administrative services provided to the Company, and rent. At both December 31, 2020 and 2019, there was a net related party receivable outstanding of less than $0.1 million on the accompanying balance sheets.

(7) Share Transactions

During the years ended December 31, 2020 and 2019, the Company did not receive any cash contributions from, or make any cash distributions to, its Class A or Class B common shareholders.

For the year ended December 31, 2020, net loss attributable to the Company's Class A and Class B common shareholders was $6.9 million and $3.3 million, respectively. For the year ended December 31, 2019, net income attributable to the Company's Class A and B common shareholders was $35.6 million and $17.0 million, respectively.

(8) 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 $0.5 million and $0.6 million for the years ended December 31, 2020 and 2019, respectively, included in general and administrative expenses on the accompanying statement of operations.

As of December 31, 2020, gross future minimum lease payments were as follows:

2021	$	761,708
2022		766,163
2023		770,618
2024		262,845
	$	2,561,334

(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 third defined production threshold of 25 million barrels of crude oil was met in April 2020, and the required $10 million was offset against the outstanding oil sales receivables from the KRG (see further discussion in note 10). The Company's working interest share of the $2.5 million and $5 million production bonuses paid, as well as the $10 million production bonus offset against receivables, are capitalized within evaluated properties on the accompanying balance sheet as of December 31, 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. The Company anticipates reaching the fourth production threshold in 2022.

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.

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

On May 5, 2020, the Company closed on a nine-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 $1.3 million in a debt service reserve for the loan included as restricted cash on the accompanying balance sheet at December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2020 and 2019, total long-term debt, net of debt issuance costs and fees, was $134.6 million and $97.7 million, respectively, and consisted of the following:

		December 31, 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		(4,177,113)	(2,744,230)
Amortization of debt issuance cost and fees		1,230,391	457,371
	$	134,553,278	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 December 31, 2020 and 2019, accrued interest was $3.8 million and $3.5 million, respectively, included on the accompanying balance sheet. For the years ended December 31, 2020 and 2019, interest expense, net was $13.0 million and $7.4 million, respectively, and consisted of the following:

		December 31, 2020	December 31, 2019
Interest expense, net:			
Cash payments for interest	$	12,204,681	5,500,000
Change in interest accrual		321,563	3,483,333
Amortization of debt issuance costs and fees		773,020	457,372
Interest income from money market account		(281,579)	(2,022,761)
	$	13,017,685	7,417,944

As noted in the table above, for the years ended December 31, 2020 and 2019, the Company earned $0.3 million and $2.0 million, respectively, in interest income on cash held in a Bank of America money market account. Interest receivable on the account at December 31, 2020 and 2019 was less than $0.1 million and $0.1 million, respectively, and is included on the accompanying balance sheets.

(10) Oil Sales Receivables and Offsetting of Liabilities owed to the KRG

In December 2020, the KRG presented a plan to the Company detailing how it would pay the November 2019 through February 2020 oil sales receivables. Under the terms of this plan, certain outstanding liabilities owed by the Company to the KRG would be offset against oil sales receivables. The Company is also entitled to supplemental payments on monthly invoices beginning in January 2021 when Dated Brent prices exceed $50 per Bbl. The Company receives 50% of the excess of the average monthly Dated Brent oil price above $50 multiplied by monthly export volumes as a supplemental payment. The supplemental payments are to be applied against the November 2019 through February 2020 oil sales receivables. As of December 31, 2020, $67.5 million is still outstanding from the November 2019 through February 2020 oil sales receivables after applying offsetting liabilities owed to the KRG by the Company.

Prior to offsetting liabilities owed to the KRG, the total balance owed to HKN for the unpaid November 2019 through February 2020 oil sales invoices was $86.1 million ($66.7 million net to the Company), which represented crude oil sales for the period November 2019 to February 2020 net of transportation costs. The total gross amounts to be offset against these receivables were $21.0 million, which consisted of $9.6 million of Oilfield Police Force costs, $1.2 million of Environmental Fund payments, $0.2 million of Production Rental payments, and $10.0 million of Production Bonuses. Security costs were accrued within operating expenses or capital expenditures, and the PSC obligations were accrued within capital expenditures.

The following table summarizes the changes in Receivables from Oil Sales from December 31, 2019 to December 31, 2020:

Receivables from oil sales at December 31, 2019	$	99,434,548
Total contractor revenue from KRG purchases in 2020		158,468,222
KRG payments for oil sales during 2020		(151,274,858)
Liabilities owed to the KRG offset against receivables		(20,987,336)
Receivables from oil sales at December 31, 2020	$	85,640,576
Receivables from oil sales - current	$	57,740,576
Receivables from oil sales - long-term		27,900,000
Receivables from oil sales at December 31, 2020	$	85,640,576

(11) 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.

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 carrying amount of the Company's cash, accounts receivable - current, 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 as 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 December 31, 2020 and 2019.

		December 31, 2020	December 31, 2019
Debt instrument:			
Bond Payable	$	98,123,272	97,713,141
Loan Payable		36,430,006	—
	$	134,553,278	97,713,141

(12) Subsequent Events

On January 27, 2021, the Company received the second and final installment loan draw on the $49 million loan from the United States International Development Finance Corporation (see note 9). The installment loan draw was in the amount of $11.5 million. The second installment bears interest at a rate of 6.55% (5.75% stated interest rate plus a 0.80% 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 added $0.2 million to its debt service reserve account for the loan, for a total of $1.5 million included as restricted cash on the balance sheet at January 31, 2021.

On March 8, 2021, the Company received a $26.2 million payment from the KRG. Of this amount, $23.5 million was attributable to January 2021 oil sales ($18.2 million net to HKN), and $2.4 million was a supplemental payment due to Dated Brent prices exceeding $50 per Bbl in January 2021 (see note 10).

The Company has evaluated subsequent events from the balance sheet date through March 23, 2021, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.