HKN ENERGY III, LTD.

Consolidated Interim Financial Statements

June 30, 2021

(Unaudited)

HKN ENERGY III, LTD.

Consolidated Statement of Financial Position

June 30, 2021

In thousands of US dollar

	Note	June 30, 2021 (Unaudited)
ASSETS		
Non-current assets		
Property and equipment - oil properties (net)	**7**	408,776
Other property and equipment (net)	**8**	4,197
Total non-current assets		**412,973**
Current assets		
Inventory	**9**	12,944
Prepaid expenses		599
Trade and other receivables	**10**	115,589
Intercompany receivables	**19**	975
Cash and cash equivalents	**11**	134,673
Restricted cash	**11**	31,213
Total current assets		**295,993**
TOTAL ASSETS		**708,966**
EQUITY AND LIABILITIES		
Equity		
Share capital		1
Additional paid-in capital	**12**	149,558
Accumulated profits		7,232
Equity attributable to HKN Energy III, Ltd.		**156,791**
Noncontrolling interest		151,199
Total equity		**307,990**
Non-current liabilities		
Debt (net of issuance costs and fees)	**14**	244,476
Share acquisition liability	**15**	88,828
Lease liabilities	**16**	553
Decommissioning provisions	**17**	6,441
Total non-current liabilities		**340,298**
Current liabilities		
Trade and other payables	**13**	58,363
Current lease liabilities	**16**	2,315
Total current liabilities		**60,678**
Total liabilities		**400,976**
TOTAL EQUITY AND LIABILITIES		**708,966**

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Consolidated Statement of Comprehensive Income

Period from May 27, 2021 to June 30, 2021

In thousands of US dollar

	Note	2021 (Unaudited)
Continuing operations		
Revenue	**3**	26,469
Cost of sales	**4**	9,541
Gross profit		**16,928**
General and administrative expenses	**5**	2,619
Profit from operating activities		**14,309**
Finance income	**6**	3
Finance expenses	**6, 14**	(2,570)
Other expense	**6**	(6)
Total comprehensive income		**11,736**
Less: Comprehensive income attributable to noncontrolling interest	**12**	(4,504)
Total comprehensive income attributable to HKN Energy III, Ltd.		**7,232**

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Consolidated Cash Flow Statement

Period from May 27, 2021 to June 30, 2021

In thousands of US dollar

	Note	2021 (Unaudited)
OPERATING ACTIVITIES		
Profit before income tax		11,736
Adjustments to add (deduct) non-cash items:		
Depreciation, depletion and amortization	**7, 8, 17**	5,881
Finance income and expense	**14, 16**	2,567
Changes in working capital and provisions:		
Trade and other receivables	**10**	5,387
Intercompany receivables	**19**	(211)
Prepaid expenses		3
Trade and other payables	**13**	(6,355)
Cash generated from operations		**19,008**
Interest received	**14**	3
Interest paid	**14**	(1)
Net cash from operating activities		**19,010**
INVESTING ACTIVITIES		
Purchases of property and equipment	**7, 8, 9**	(4,442)
Purchase of HKN Holding Ltd. shares	**1**	(80,000)
Cash acquired in acquisition of controlling interest in HKN Energy, Ltd.		123,434
Net cash from investing activities		**38,992**
FINANCING ACTIVITIES		
Proceeds from debt net of fees	**14**	98,000
Debt issuance costs	**14**	(68)
Payments of lease liabilities	**16**	(48)
Contributions from owners	**1**	10,000
Net cash from financing activities		**107,884**
Net increase in cash and cash equivalents, and restricted cash		**165,886**
Cash and cash equivalents, and restricted cash at beginning of the period		-
Cash and cash equivalents, and restricted cash at end of the period	**11**	**165,886**

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Consolidated Statement of Changes in Equity

Period from May 27, 2021 to June 30, 2021

In thousands of US dollar

	Note	Share capital	Additional paid-in capital	Accumulated profits	Equity attributable to HKN Energy III, LTD.	Noncontrolling interest	Total equity
Total equity as of May 26, 2021 (Unaudited)		**-**	**-**	**-**	**-**	**-**	**-**
Profit for the period	**12**	-	-	7,232	7,232	4,504	**11,736**
Total comprehensive income		**-**	**-**	**7,232**	**7,232**	**4,504**	**11,736**
Capital contributions	**1**	-	10,000	-	10,000	-	10,000
Contribution of HKN Holding, Ltd. shares	**12**	-	139,558	-	139,558	-	139,558
Noncontrolling interest in consolidated subsidiary, HKN Energy Ltd		-	-	-	-	146,695	146,695
Issuance of common shares		1	-	-	1	-	1
Total transactions with shareholders		**1**	**149,558**	**-**	**149,559**	**146,695**	**296,254**
Total equity as of June 30, 2021 (Unaudited)		**1**	**149,558**	**7,232**	**156,791**	**151,199**	**307,990**

At June 30, 2021, there were 200,000 common shares authorized at a $0.01 par value, with 100,000 common shares issued and outstanding. As of June 30, 2021, the Company held no treasury shares.

See accompanying Notes to the Financial Statements

(1) Formation and Nature of Operations

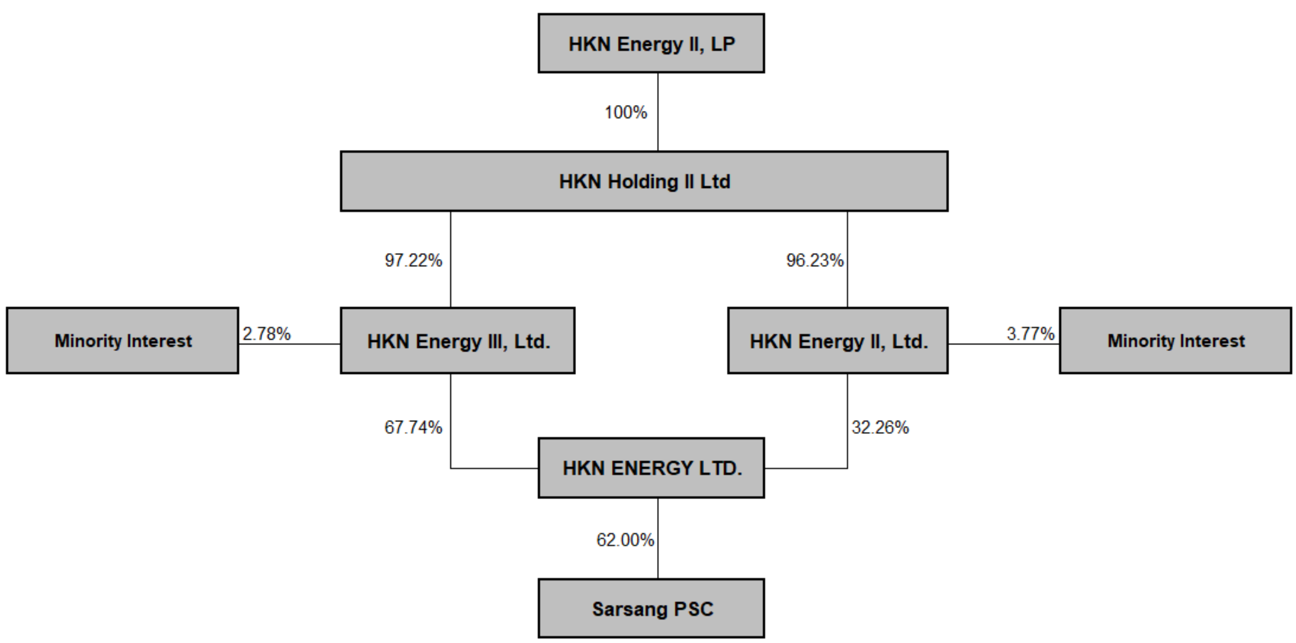
HKN Energy III, Ltd. (HKN III or the Company) is incorporated in the Cayman Islands and was formed on April 22, 2021. The registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. HKN III was created as part of a restructuring of the ownership of HKN Energy Ltd. (HKN Energy). The principal activity of HKN Energy is the exploration, development, and production of oil and natural gas in the Kurdistan Region of Iraq ("Kurdistan").

Prior to the reorganization, HKN Holding Ltd. was the owner of HKN Energy's Class A common shares, representing an approximated 68% ownership interest in HKN Energy.

HKN III's parent entity, HKN Holding II (UK) Ltd. acquired HKN Holding Ltd. preference shares from affiilated entities and contributed the preference shares to HKN III along with $10.0 million of cash as an initial equity investment. HKN III then agreed to purchase the HKN Holding Ltd. preference shares owned by Kerogen Capital No. 7 Limited ("Kerogen") in exchange for $80.0 million in cash and deferred payments of $95.0 million with contingent deferred payments of up to $25.0 million (see further discussion in note 15). HKN Holding Ltd. was merged into HKN III and then dissolved. HKN III financed the Kerogen purchase by issuing $100.0 million in bonds (see further discussion in note 14). The effective date of these transactions was May 27, 2021.

As a result of these transactions, HKN III owns the Class A shares of HKN Energy and the dividend stream from those shares will be used to pay its outstanding obligations and return capital to its shareholders.

A graph of the HKN III ownership structure is presented below for reference:



(2) Summary of Significant Accounting Policies

(a) Statement of Compliance

The unaudited consolidated financial statements for the period ended June 30, 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The unaudited consolidated financial statements were authorized for issuance by management on August 26, 2021.

The consolidated financial statements included in the half-yearly financial report have been prepared on a going concern basis as management consider that the Company has adequate resources to continue operating for the foreseeable future.

(b) Going Concern

The Company regularly evaluates its financial position, cash flow forecasts and its compliance with financial covenants through financial modeling and assessing the model outputs from multiple scenarios with different oil price, production, expenditure and cash receipt variables. The Company maintains unrestricted cash balances totaling $134.7 million at June 30, 2021, has no debt maturing until 2022 and is significantly above the minimum requirements with regard to equity ratio and minimum liquidity covenant. The Company's financial forecasts and models incorporating downside cases with regard to oil prices and cash receipts show sufficient financial resources to continue as a Going Concern for the foreseeable future.

(c) Joint Arrangements

The Company is engaged in oil and gas exploration, development and production through an unincorporated joint arrangement; which is classified as a joint operation in accordance with IFRS 11 *Joint Arrangements*. In its financial statements, the Company accounts for its share of the related revenues in accordance with the distribution of oil sales proceeds required under the Sarsang PSC. The Company accounts for its share of the expenses, assets and liabilities based on its working interest, which reflects the Company's contractual rights under the arrangement. In addition, where the Company acts as operator to the joint operation, the gross liabilities and receivables (including amounts due to or from non-operating partner) of the joint operation are included in the Company's statement of financial position (see notes 10 and 13).

(d) Use of Judgments and Estimates

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(i) Judgments

The following are the critical judgments, apart from those involving estimations (which are presented separately below), that management has made that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue Recognition

The recognition of revenue is considered to be a key accounting judgment. In order for a contract to exist and be in the scope of IFRS 15, it has to be probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. The assessment of whether collection of consideration from the KRG is probable is based on management's evaluation of the reliability of the KRG's payments to the international oil companies ("IOCs") operating in Kurdistan.

(ii) Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties at June 30, 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following areas:

Measurement and recognition of non-current oil sales receivables

In March 2020, the KRG informed HKN Energy and other IOCs in Kurdistan that payments for sales from November 2019 to February 2020 would be deferred. See note 20 for further discussion.

While the Company continues to expect to recover the full outstanding balance from the KRG, the Company determined it was appropriate to evaluate on a quarterly basis the need to present a portion of the outstanding receivables from oil sales as non-current. Due to uncertainty about the timing of supplemental payments (see note 20), management uses judgment in determining the assumptions for the non-current receivable calculation, based on observed market data, existing market conditions and forward-looking estimates on a quarterly basis. As of June 30, 2021, management determined that the full outstanding receivables balance for the overdue invoices should be presented as current.

Impairment of oil properties

In line with the Company's accounting policy on impairment, management performs an impairment review of the Company's oil properties at least annually. The key assumptions used in the impairment review are subject to change based on market trends and economic conditions.

The Company's sole cash generating unit at June 30, 2021 was its ownership in HKN Energy. HKN Energy's sole cash generating unit at June 30, 2021 was the Sarsang Block with a carrying value of $408.8 million. The Company performed an impairment indicator evaluation considering the impact of COVID-19, potential changes to future development plans and actions to preserve liquidity. The potential impact of such factors together with other possible changes to key assumptions and available mitigating actions, showed that no impairment indicators arose.

(3) Revenue

In thousands of US dollar	**Period from May 27, 2021 to June 30, 2021 (unaudited)**
Revenue	
Oil sales	26,469
	26,469

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

(4) Cost of Sales

In thousands of US dollar	**Period from May 27, 2021 to June 30, 2021 (unaudited)**
Cost of Sales	
Operating expenses	(3,159)
Depletion, depreciation and amortization	(5,881)
Transportation costs	(501)
	(9,541)

Operating expenses include expenses related to the production of oil including operating and maintenance of facilities and well intervention activities.

Depletion, depreciation and amortization includes unit of production depletion of oil properties, straight-line depreciation of other property and equipment, accretion expense on decommissioning provision, and depreciation of RoU assets recognized under IFRS 16 *Leases*.

Transportation costs include trucking and unloading expenses related to delivery of the Company's proportionate share of entitled oil production to the sales location and is incurred prior to the transfer of control.

(5) General and administrative expenses

In thousands of US dollar	**Period from May 27, 2021 to June 30, 2021 (unaudited)**
General and administrative expenses	
Personnel costs	(1,267)
Legal and consulting	(879)
Office and apartment rent, security and supplies	(279)
Travel costs	(75)
Other general and administrative expenses	(119)
	(2,619)

Personnel costs of $1.3 million for the period from May 27, 2021 to June 30, 2021 include salaries, bonuses, employer's payroll tax expenses, deferred compensation and other miscellaneous costs.

(6) Finance income and expense / Other expenses

In thousands of US dollar	**Period from May 27, 2021 to June 30, 2021 (unaudited)**
Finance income	
Interest income on cash held in money market investment account	3
Finance expense	
Interest expense from debt	(2,401)
Amortization of debt issuance costs related to debt	(164)
Interest expense recognized on lease liabilities	(5)
Other expenses	
Other expense	(6)
	(2,573)

Other expenses of less than $0.1 million include bank fees, losses on foreign currency translations, and losses associated with dispositions of inventory offset by gains on sales of other property and equipment and administration fees charged on supplier rebills.

(7) Property and equipment – oil properties

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Oil & gas assets	
Oil & gas properties	578,201
RoU asset	10,996
Capitalized interest	4,286
Decommissioning provision	5,475
Balance at period end	**598,958**
Accumulated depletion and impairment	
Accumulated depletion	(188,878)
Accumulated depreciation of RoU assets	(1,304)
Balance at period end	**(190,182)**
Carrying value - oil & gas assets	**408,776**

The carrying value of oil and gas assets at June 30, 2021 is comprised of property, plant and equipment relating to the Sarsang Block and has a carrying value of $408.8 million.

Additions to the Sarsang asset during the periods presented primarily include costs for the drilling, stimulation and completion of wells and the equipment and construction of production facilities.

As of June 30, 2021, the Company's oil and gas properties balance included $11.0 million of right-of-use ("RoU") assets, which are related to oil production facility leases. The RoU assets are depreciated straight-line over the lifetime of their underlying asset or lease contract.

As of June 30, 2021, $4.3 million of interest expense was capitalized within oil and gas properties in relation to debt incurred to finance the construction of PP&E assets. The Company uses a weighted average interest rate (annual interest expense on debt divided by total principal balance) to determine the amount of interest to be capitalized.

The depletion of oil properties and depreciation of RoU assets have been included within cost of sales on the accompanying consolidated statement of comprehensive income (see note 4). The carrying value of oil properties is depleted on a PSC-wide basis using the unit-of-production basis. RoU assets are depreciated on a straight-line basis.

(8) Other property and equipment

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Acquisition cost	
Other property and equipment purchases…………	8,772
RoU assets………………………………………………	1,254
Balance at period end………………………………	**10,026**
Accumulated depreciation and impairment	
Accumulated depreciation…………………………	(5,303)
Accumulated depreciation of RoU Assets………	(526)
Balance at period end………………………………	**(5,829)**
Carrying value	**4,197**

Additions to Other Property and Equipment include assets such as containers, housing, computers, and other non-development equipment. Other Property and Equipment included $1.3 million of RoU assets, related to office and apartment leases. Assets in Other Property and Equipment are depreciated on a straight-line basis.

(9) Inventory

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Inventory	
Warehouse stocks and materials………………………	12,944
	12,944

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, 2021, $12.9 million of these assets were included as inventory on the accompanying consolidated statement of financial position. Additionally, $0.3 million of additions to inventory were included in purchases of property and equipment on the accompanying consolidated statement of cash flows for the period ended June 30, 2021.

(10) Trade and other receivables

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Trade and other receivables - current	
Receivables from oil sales - current……………………….	112,002
Receivables from transportation costs…………………..	3,579
Receivables from co-venturer………………………………	-
Other receivables……………………………………………..	8
	115,589

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 amount of $112.0 million at June 30, 2021 is owed to the Company and its co-venturer. A corresponding payable of $25.2 million at June 30, 2021 is recorded in revenues payable on the accompanying consolidated statement of financial position for the portion of this receivable due to the Company's co-venturer (see note 13). See note 20 for further discussion on the collectability of these receivables.

Receivables from transportation costs: 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, 2021 included $3.6 million for KRG transportation cost paid by the Company and its co-venturer.

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 June 30, 2021, the amount of cash advances paid exceeded the amount of receivables due from the Company's co-venturer, resulting in a net capital spending advance position of $2.4 million, included within trade and other payables on the accompanying consolidated statement of financial position (see note 13).

Other receivables: Other receivables at June 30, 2021 consisted primarily of interest receivable on cash invested in money market accounts.

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

(11) Cash and cash equivalents

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Cash and cash equivalents	
Cash in bank accounts and on hand…………………….	4,382
Cash in money market investment account……………	130,291
Restricted cash………………………………………………	31,213
	165,886

See note 14 for information on the restricted cash balance.

(12) Shareholders' equity

(a) Share transactions

As discussed in note 1, on May 27, 2021, the Company's parent entity, HKN Holding II (UK) Ltd., transferred HKN Holding Ltd. preference shares valued at $139.6 million to the Company in exchange for 100,000 common shares of HKN III. Additionally, the Company received a $10.0 million cash contribution from HKN Holding II (UK) Ltd. as an initial equity investment. There were no other share transactions during the period ended June 30, 2021.

(b) Noncontrolling interest

The Company has a noncontrolling interest representing the equity of HKN Energy II Ltd.'s ownership interest in the Class B shares of HKN Energy (approximately 32% ownership of HKN Energy). HKN III and HKN Energy II Ltd. have the same parent entity, HKN Holding II (UK) Ltd. The net profit attributable to the noncontrolling interest represents the HKN Energy net profit for the period multiplied by HKN Energy II Ltd.'s approximately 32% ownership interest of HKN Energy. For the period from May 27, 2021 to June 30, 2021, net profit attributable to the noncontrolling interest was $4.5 million.

(13) Trade and other payables

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Trade and other payables - current	
Accounts payable	21,156
Revenues payable to co-venturer - current	25,200
Capital spending advances to co-venturer	2,364
Transportation payable	1,636
Accrued expenses	
Compensation payable	2,499
Accrued interest	5,032
PSC obligations	228
Other accrued expenses	248
	58,363

Accounts payable comprise invoices due to suppliers and are normally settled within 30 days. See note 10 for explanation of revenues payable, capital spending advances to co-venturer, and transportation payable. Compensation payable consists primarily of bonuses payable, which are settled in the subsequent year. Accrued interest relates to debt payable (see note 14). See note 18 for explanation of PSC obligations. Other accrued expenses primarily include payables to related affiliates for general and administrative services (see note 19).

(14) Debt and Finance Income/Expenses

On May 26, 2021, the Company closed on a four-year unsecured bond of $100 million with semi-annual interest payments at a coupon rate of 12%. The bond matures on May 26, 2025. The first interest payment is due on November 26, 2021. In accordance with the terms of the bond, the net cash proceeds from the bond were used to finance the Company's $80 million payment for the Kerogen purchase (see note 15). Additionally, per the bond terms the Company used the net cash proceeds to fund an account with the Debt Service Reserve Requirement, which equals 24 months of interest due on the bond. The Company is to use the funds in this account to pay interest on the bond as it becomes due. Therefore, the Company had $24.0 million in a debt service reserve for the bond included as restricted cash on the accompanying consolidated statement of financial position at June 30, 2021. Per the bond's financial covenants, if the Company makes any distributions, it is required to maintain cash and cash equivalents (not including the debt service reserve) on an unconsolidated basis in an aggregate amount of no less than the minimum liquidity amount as defined by the bond terms. As of June 30, 2021, the Company had not made any distributions and therefore 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 consolidated financial statements are authorized to be issued.

On May 5, 2020, HKN Energy 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. HKN Energy 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). HKN Energy received the second and final installment payout of $11.5 million on January 27, 2021. 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, HKN Energy 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, HKN Energy had $1.7 million in a debt service reserve for the loan included as restricted cash on the accompanying consolidated statement of financial position at June 30, 2021. Per the loan's financial covenants, HKN Energy 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, HKN Energy 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, 2021, HKN Energy was in compliance with all required financial covenants. HKN Energy expects to remain in compliance with all of the loan's required financial covenants for a period of one year from the date the consolidated financial statements are authorized to be issued.

On March 6, 2019, HKN Energy 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 HKN Energy secures. Therefore, as a result of HKN Energy securing the loan discussed above, HKN Energy had $5.5 million (six months of interest) in a debt service reserve for the bond included as restricted cash on the accompanying consolidated statement of financial position at June 30, 2021. Per the bond's financial covenants, HKN Energy 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, 2021, HKN Energy was in compliance with all required financial covenants. HKN Energy expects to remain in compliance with all of the bond's required financial covenants for a period of one year from the date the consolidated financial statements are authorized to be issued.

At June 30, 2021, total non-current debt, net of debt issuance costs and fees, was $244.5 million and consisted of the following:

In thousands of US dollar	At June 30, 2021 (unaudited)		
Debt, net of issuance costs and fees	**HKN Energy**	**HKN III**	**Total**
Debt payable	149,000	100,000	**249,000**
Debt issuance costs and fees	(4,177)	(2,068)	**(6,245)**
Amortization of debt issuance costs and fees	1,635	86	**1,721**
	146,458	**98,018**	**244,476**

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

In thousands of US dollar	
2021	-
2022	3,500
2023	7,000
2024	7,000
2025	107,000
Thereafter	124,500
	249,000

At June 30, 2021, accrued interest was $5.0 million, included within Trade and Other Payables on the accompanying consolidated statement of financial position (see note 13). For the period ended June 30, 2021, finance income and finance expense consisted of the following:

In thousands of US dollar	**Period from May 27, 2021 to June 30, 2021 (unaudited)**
Finance income	
Interest income from money market account	3
	3
Finance expense	
Cash payments for interest	(1)
Change in interest accrual	(2,519)
Amortization of debt issuance costs and fees	(164)
Interest expense on leases	(5)
Transfer to capitalized interest	119
	(2,570)

(15) Kerogen share acquisition liability

As discussed in note 1, the Company purchased Class A convertible preferred shares from Kerogen on May 27, 2021. The consideration for the sale consisted of a cash consideration of $80.0 million, as well as a $95.0 million Earn-Out Consideration and a $25.0 million Oil Price Contingent Earn-Out Consideration.

(a) Earn-Out Consideration

Starting at the end of third quarter of 2022, the Company is required to pay Kerogen an amount equal to 20% of HKN Energy's total oil sales for the quarter, in respect of HKN Energy's Class A shares participating interest share of crude oil (approximately 68%). The Company shall not make any quarterly payment unless the Company has sufficient funds to meet its obligations to pay any interest or principal amount on bonds, to keep its debt service reserves fully funded, and meet any general and administrative costs in the ordinary course of business. If the Company is not able to pay the full quarterly Earn-Out payment after meeting its aforementioned obligations, the shortfall shall be added to the following quarterly Earn-Out payment due. Additionally, no quarterly Earn-Out payment will be due unless HKN Energy has received payment from the KRG for the corresponding oil sales amount used to calculate the quarterly Earn-Out payment. In this case, the Company will make a proportional payment of the quarterly Earn-Out payment to Kerogen, pro-rata to the portion of the oil sales amount actually paid for by the KRG. The Company will continue to make these quarterly Earn-Out payments to Kerogen until the full $95.0 million Earn-Out Consideration has been paid.

As of June 30, 2021, the Company has accrued the present value, $88.8 million, of the $95.0 million Earn-Out Consideration as a non-current share acquisition liability on the accompanying consolidated statement of financial position. The present value was calculated using the Company's risk-free rate as of May 31, 2021, which approximates the date of the transaction.

(b) Oil Price Contingent Earn-Out Consideration

The Company is required to pay Kerogen an amount of up to $25.0 million of earn-out consideration contingent upon the price of oil. The Contingent Earn-Out Consideration will be accrued for each quarter during the Contingent Payment Accrual Period, which is defined as the eight quarters starting from July 1, 2021 and ending June 30, 2023, and paid to Kerogen as earn-out in accordance with the Earn-Out Consideration payment schedule discussed above. For the Contingent Payment Accrual Period, if the average Dated Brent Price is:

1. Less than $55 per barrel, then no Oil Price Contingent Earn-Out Consideration shall accrue during that quarter;

2. Greater than or equal to $65 per barrel, then $5.0 million of Oil Price Contingent Earn-Out Consideration shall accrue during that quarter; or

3. Between $55 per barrel and $65 per barrel, then the Oil Price Contingent Earn-Out Consideration to accrue for that quarter will be calculated as: $5.0 million x ((average Dated Brent Price - $55) / ($65 - $55)).

If HKN Energy does not receive payment from the KRG in respect of any oil sold during any quarter in the Contingent Payment Accrual Period, or the amount of oil sold to the KRG is significantly curtailed or reduced directly resulting from reasons of Force Majeure (as defined in the Sarsang PSC), the Contingent Earn-Out Consideration amount to accrue for the quarter shall be adjusted by an amount pro-rata to the quantity of oil not paid for by the KRG or not sold to the KRG compared to the quantity of oil that would have been paid for by or sold to the KRG. Then, the accrued Contingent Earn-Out Consideration amount will be added to the amount to be paid as Earn-Out Consideration.

As the Oil Price Contingent Earn-Out Consideration is earned under the terms of the agreement, it will be accrued as a liability on the Company's statement of financial position.

(16) Lease liabilities

As of June 30, 2021, current lease liabilities of $2.3 million and non-current lease liabilities of $0.6 million are included on the accompanying consolidated statement of financial position, and consisted of the following:

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Lease liabilities	
Initial measurement of lease liability	12,168
Remeasurement of lease liability	82
Lease payments	(10,099)
Interest expense	717
Balance at period end	**2,868**
Current portion (within one year)	2,315
Non-current portion (two to five years)	553
	2,868

The identified lease liabilities have no significant impact on the Company's financing or debt covenants. The Company does not have any residual value guarantees. Extension options are included in the lease liability when, based on management's judgment, it is reasonably certain that an extension will be exercised. The Company also has short-term apartment and office leases. Some office leases include a variable rent component. Total payments for short-term leases and the variable rent component of office leases were less than $0.1 million for the period ended June 30, 2021 and were recognized within general and administrative expenses.

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Lease maturity analysis	
Year 1	2,053
Year 2	-
Year 3	396
Year 4	419
Year 5	-
	2,868
Amounts payable under leases	
Within one year	2,348
Two to five years	582
	2,930
Less future interest charges	(62)
Less future remeasurement of lease liability	-
Net present value of lease obligations	**2,868**

(17) Decommissioning provisions

At June 30, 2021, decommissioning provisions was $6.4 million and consisted of:

In thousands of US dollar	**At June 30, 2021 (unaudited)**
Decommissioning provisions	
Initial provision	5,475
Accretion expense	966
Balance at period end	**6,441**

Provision for decommissioning costs is made in full when the Company has an obligation associated with future plugging and abandonment costs on its oil properties. The amount recognized is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalized and amortized over the life of the underlying asset on a unit of production basis over proven reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

(18) Commitments and Contingencies

The Company is not currently a party to any litigation that it believes would have a materially adverse effect on the Group's business, financial condition, results of operations, or liquidity, other than the matters previously described.

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 (unpaid amounts are accrued as PSC obligations within trade and other payables) 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 $5.0 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 $10.0 million was offset against the outstanding oil sales receivables from the KRG (see further discussion in note 20). HKN Energy's working interest share of the $2.5 million and $5.0 million production bonuses paid, as well as the $10.0 million production bonus offset against receivables, were expensed within operating expenses for the periods during which the payments were made. 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 $20.0 million will be owed by the Contractor to the KRG. HKN Energy anticipates reaching the fourth production threshold in 2022. The production bonuses represent an outflow of HKN Energy's resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with IFRIC 21 *Levies* which requires that the obligation be recognized on the date at which the production milestone is reached.

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.

The Company projects to have cash flows sufficient to satisfy the Company's obligations for the twelve months from the date the consolidated financial statements were authorized to be issued.

(19) 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 period ended June 30, 2021, the Company paid general and administrative expenses of $0.2 million to related entities for management and administrative services provided to the Company, and rent. At June 30, 2021 there was a net related party receivable outstanding of $1.0 million as intercompany receivables on the accompanying consolidated statement of financial position.

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

In December 2020, the KRG presented a plan to HKN Energy detailing how it would pay the November 2019 through February 2020 oil sales receivables amounting to $86.1 million ($66.7 million net to HKN Energy). Under the terms of this plan, certain outstanding liabilities owed by HKN Energy to the KRG would be offset against oil sales receivables. HKN Energy is also entitled to supplemental payments on monthly invoices beginning in January 2021 when Dated Brent prices exceed $50 per Bbl. HKN Energy 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.

The total gross amounts of liabilities offset against these receivables as of June 30, 2021 were $21.7 million, which consisted of $10.3 million of Oilfield Police Force costs, $1.4 million of PSC obligations ($1.2 million Environmental Fund payments and $0.2 million of Production Rental payments), and $10.0 million of Production Bonuses. Security costs were accrued within operating expenses or capital expenditures, PSC obligations were accrued within capital expenditures, and Production Bonuses were accrued within operating expenses.

On May 13, 2021, HKN Energy received a letter from the KRG stating that, beginning with the March 2021 oil sales invoice, the KRG intended to remit 20% of the excess of the average monthly Dated Brent oil price above $50 multiplied by monthly export volumes as a supplemental payment, rather than the original 50%. As of June 30, 2021, HKN Energy has received supplemental payments calculated at 50% for the January and February 2021 oil sales invoices in the amount of $6.3 million, and supplemental payments calculated at 20% for the March and April 2021 oil sales invoices in the amount of $5.4 million, for a total of $11.7 million received in supplemental payments.

As of June 30, 2021, $52.7 million ($40.9 million net to HKN Energy) is still outstanding from the November 2019 through February 2020 oil sales receivables after applying the aforementioned supplemental payments and offsetting liabilities owed to the KRG by HKN Energy. Additionally, HKN Energy is owed $2.4 million of transportation costs by the KRG in relation to November 2019 to February 2020 oil sales, amounting to $55.1 million in total of receivables for this period ($42.7 million net to HKN Energy) still outstanding from the KRG as of June 30, 2021.

The following table summarizes the changes in Receivables from Oil Sales of HKN Energy, within Trade and Other Receivables in the accompanying consolidated statement of financial position, from January 1, 2021 to June 30, 2021:

In thousands of US dollar	
Receivables from oil sales	
Balance at January 1, 2021	85,641
Total contractor revenue from KRG purchases during the period.....	152,007
KRG payments for oil sales during the period...............................	(113,267)
KRG supplemental payments for oil sales during the period	(11,651)
Liabilities owed to the KRG offset against receivables..................	(728)
Balance at June 30, 2021..	**112,002**

HKN Energy is currently maintaining a live model of the recoverability of these oil sales receivables, taking into account the aforementioned decrease of the supplemental payment multiplier from 50% to 20%. According to the model, HKN Energy expects to fully recover the receivables in 2022. In addition, the KRG continues to remit payment for current invoices within 60 days following the month of delivery. Based on these factors, HKN Energy believes the oil sales receivables will be recovered in full.

(21) Subsequent Events

On August 5, 2021, HKN Energy received a $34.2 million payment from the KRG. Of this amount, $29.9 million was attributable to May 2021 oil sales ($23.2 million net to HKN Energy), and $3.6 million was a supplemental payment due to Dated Brent prices exceeding $50 per Bbl in May 2021 (see note 20).

The Company has evaluated subsequent events from the consolidated statement of financial position date through August 26, 2021, the date at which the consolidated financial statements were authorized to be issued, and determined that there are no other items to disclose.

EXHIBIT 1

HKN ENERGY III, LTD.

Consolidated Statement of Financial Position

June 30, 2021

In thousands of US dollar

	HKN Energy III, Ltd. Unconsolidated	HKN Energy, Ltd.	Eliminations	HKN Energy III, Ltd. Consolidated
	June 30, 2021 (Unaudited)	June 30, 2021 (Unaudited)	June 30, 2021 (Unaudited)	June 30, 2021 (Unaudited)
ASSETS				
Non-current assets				
Property and equipment - oil properties (net)	-	408,776	-	408,776
Other property and equipment (net)	-	4,197	-	4,197
Investment in equity affiliate	317,583	-	(317,583)	-
Total non-current assets	**317,583**	**412,973**	**(317,583)**	**412,973**
Current assets				
Inventory	-	12,944	-	12,944
Prepaid expenses	19	580	-	599
Trade and other receivables	-	115,589	-	115,589
Intercompany receivables	265	710	-	975
Cash and cash equivalents	3,028	131,645	-	134,673
Restricted cash	24,000	7,213	-	31,213
Total current assets	**27,312**	**268,681**	**-**	**295,993**
TOTAL ASSETS	**344,895**	**681,654**	**(317,583)**	**708,966**
EQUITY AND LIABILITIES				
Equity				
Share capital	1	1	(1)	1
Additional paid-in capital	149,558	540,198	(540,198)	149,558
Accumulated profits (deficit)	7,232	(71,417)	71,417	7,232
Equity attributable to HKN Energy III, Ltd.	**156,791**	**468,782**	**(468,782)**	**156,791**
Noncontrolling interest	-	-	151,199	151,199
Total equity	**156,791**	**468,782**	**(317,583)**	**307,990**
Non-current liabilities				
Debt (net of issuance costs and fees)	98,018	146,458	-	244,476
Share acquisition liability	88,828	-	-	88,828
Lease liabilities	-	553	-	553
Decommissioning provisions	-	6,441	-	6,441
Total non-current liabilities	**186,846**	**153,452**	**-**	**340,298**
Current liabilities				
Trade and other payables	1,258	57,105	-	58,363
Current lease liabilities	-	2,315	-	2,315
Total current liabilities	**1,258**	**59,420**	**-**	**60,678**
Total liabilities	**188,104**	**212,872**	**-**	**400,976**
TOTAL EQUITY AND LIABILITIES	**344,895**	**681,654**	**(317,583)**	**708,966**

EXHIBIT 1

HKN ENERGY III, LTD.

Consolidated Statement of Comprehensive Income

Period from May 27, 2021 to June 30, 2021

In thousands of US dollar

	HKN Energy III, Ltd. Unconsolidated	HKN Energy, Ltd.	Eliminations	HKN Energy III, Ltd. Consolidated
	2021 (Unaudited)	2021 (Unaudited)	2021 (Unaudited)	2021 (Unaudited)
Continuing operations				
Revenue	-	26,469	-	26,469
Cost of sales	-	9,541	-	9,541
Gross profit	**-**	**16,928**	**-**	**16,928**
General and administrative expenses	1,009	1,610	-	2,619
Profit of equity affiliate	9,461	-	(9,461)	-
Profit from operating activities	**8,452**	**15,318**	**(9,461)**	**14,309**
Finance income	-	3	-	3
Finance expenses	(1,220)	(1,350)	-	(2,570)
Other expense	-	(6)	-	(6)
Total comprehensive income	**7,232**	**13,965**	**(9,461)**	**11,736**
Less: Comprehensive income attributable to noncontrolling interest	-	-	(4,504)	(4,504)
Total comprehensive income attributable to HKN Energy III, Ltd.	**7,232**	**13,965**	**(13,965)**	**7,232**

EXHIBIT 1

HKN ENERGY III, LTD.

Unconsolidated Cash Flow Statement

Period from May 27, 2021 to June 30, 2021

In thousands of US dollar

	HKN Energy III, Ltd. **2021 (Unaudited)**
OPERATING ACTIVITIES	
Profit before income tax	7,232
Adjustments to add (deduct) non-cash items:	
Finance expense	1,220
Income of equity affiliates	(9,461)
Changes in working capital and provisions:	
Intercompany receivables	-
Prepaid expenses	(19)
Trade and other payables	125
Cash used in operations	**(903)**
Interest paid	(1)
Net cash used in operating activities	**(904)**
INVESTING ACTIVITIES	
Acquisition of controlling interest in HKN Energy, Ltd.	(80,000)
Net cash used in investing activities	**(80,000)**
FINANCING ACTIVITIES	
Proceeds from debt, net of fees	98,000
Debt issuance costs	(68)
Contributions from owners	10,000
Net cash from financing activities	**107,932**
Net increase in cash and cash equivalents, and restricted cash	**27,028**
Cash and cash equivalents, and restricted cash at beginning of the period	-
Cash and cash equivalents, and restricted cash at end of the period	**27,028**

EXHIBIT 1

HKN ENERGY III, LTD.

Unconsolidated Statement of Changes in Equity

Period from May 27, 2021 to June 30, 2021

In thousands of US dollar

	Share capital	**Additional paid-in capital**	**Accumulated profits**	**Equity attributable to HKN Energy III, LTD.**	**Total equity**
Total equity as of May 26, 2021	**-**	**-**	**-**	**-**	**-**
Profit for the period	-	-	7,232	7,232	**7,232**
Total comprehensive income	**-**	**-**	**7,232**	**7,232**	**7,232**
Capital contributions	-	10,000	-	10,000	10,000
Contribution of HKN Holding, Ltd. shares	-	139,558	-	139,558	139,558
Issuance of common shares	1	-	-	1	1
Total transactions with shareholders	**1**	**149,558**	**-**	**149,559**	**149,559**
Total equity as of June 30, 2021	**1**	**149,558**	**7,232**	**156,791**	**156,791**

At June 30, 2021, there were 200,000 common shares authorized at a $0.01 par value, with 100,000 common shares issued and outstanding. As of June 30, 2021, the Company held no treasury shares.