HKN ENERGY LTD.

Interim Financial Statements

June 30, 2021

(Unaudited)

HKN ENERGY LTD.

Statements of Financial Position

June 30, 2021 and 2020

In thousands of US dollar

	Note	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
ASSETS			
Non-current assets			
Property and equipment - oil properties (net)	**7**	408,776	411,878
Other property and equipment (net)	**8**	4,197	4,511
Total non-current assets		**412,973**	**416,389**
Current assets			
Inventory	**9**	12,944	13,967
Prepaid expenses		580	572
Trade and other receivables	**10**	115,589	107,014
Derivative financial instruments	**20**	-	594
Intercompany receivables	**18**	710	123
Cash and cash equivalents	**11**	131,645	80,570
Restricted cash	**11**	7,213	6,708
Total current assets		**268,681**	**209,548**
TOTAL ASSETS		**681,654**	**625,937**
EQUITY AND LIABILITIES			
Equity			
Share capital		1	1
Additional paid-in capital		540,198	540,198
Accumulated deficit		(71,417)	(130,263)
Total equity	**12**	**468,782**	**409,936**
Non-current liabilities			
Debt (net of issuance costs and fees)	**14**	146,458	134,289
Lease liabilities	**15**	553	815
Decommissioning provisions	**16**	6,441	5,158
Total non-current liabilities		**153,452**	**140,262**
Current liabilities			
Trade and other payables	**13**	57,105	71,066
Current lease liabilities	**15**	2,315	4,673
Total current liabilities		**59,420**	**75,739**
Total liabilities		**212,872**	**216,001**
TOTAL EQUITY AND LIABILITIES		**681,654**	**625,937**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Comprehensive Income (Loss)

Six months ended June 30, 2021 and 2020

In thousands of US dollar

	Note	2021 (Unaudited)	2020 (Unaudited)
Continuing operations			
Revenue	**3**	117,805	53,358
Cost of sales	**4**	49,353	51,640
Gross profit		**68,452**	**1,718**
General and administrative expenses	**5**	7,800	10,678
Profit (loss) from operating activities		**60,652**	**(8,960)**
Finance income	**6**	15	268
Finance expenses	**6, 14**	(6,490)	(5,626)
Realized loss on derivatives	**20**	-	(279)
Unreallized loss on derivatives	**20**	-	(1,080)
Other expense	**6**	(30)	(46)
Total comprehensive income (loss)		**54,147**	**(15,723)**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Cash Flow Statements

Six months ended June 30, 2021 and 2020

In thousands of US dollar

	Note	2021 (Unaudited)	2020 (Unaudited)
OPERATING ACTIVITIES			
Profit/(loss) before income tax		54,147	(15,723)
Adjustments to add (deduct) non-cash items:			
Depreciation, depletion and amortization	**7, 8, 16**	28,888	25,220
Finance income and expenses	**6**	6,475	5,358
Derivative loss	**20**	-	1,359
Cash paid for commodity derivatives	**20**	-	(1,953)
Changes in working capital and provisions:			
Trade and other receivables	**10**	(24,961)	3,587
Intercompany receivables		(635)	(89)
Prepaid expenses		(222)	644
Trade and other payables	**13**	9,282	3,217
Cash from operating activities		**72,974**	**21,620**
Interest received		14	375
Interest paid	**14**	(7,013)	(5,500)
Net cash from operating activities		**65,975**	**16,495**
INVESTING ACTIVITIES			
Purchases of property and equipment	**7, 8, 9**	(27,153)	(46,369)
Net cash used in investing activities		**(27,153)**	**(46,369)**
FINANCING ACTIVITIES			
Proceeds from debt, net of fees	**14**	11,500	37,059
Debt issuance costs	**14**	-	(845)
Payments of lease liabilities	**15**	(1,562)	(2,133)
Net cash from financing activities		**9,938**	**34,081**
Net increase in cash and cash equivalents, and restricted cash		**48,760**	**4,207**
Cash and cash equivalents, and restricted cash at beginning of the period		90,098	83,071
Cash and cash equivalents, and restricted cash at end of the period	**11**	**138,858**	**87,278**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Changes in Equity

Six months ended June 30, 2021 and 2020

In thousands of US dollar

	Note	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
Total equity as of December 31, 2019 (Audited)		**1**	**540,198**	**(114,540)**	**425,659**
Loss for the period allocated to Class A shareholders	**12**	-	-	(10,652)	**(10,652)**
Loss for the period allocated to Class B shareholders	**12**	-	-	(5,071)	**(5,071)**
Total comprehensive loss		**-**	**-**	**(15,723)**	**(15,723)**
Total equity as of June 30, 2020 (Unaudited)		**1**	**540,198**	**(130,263)**	**409,936**
Total equity as of December 31, 2020 (Audited)		**1**	**540,198**	**(125,564)**	**414,635**
Profit for the period allocated to Class A shareholders	**12**	-	-	36,683	**36,683**
Profit for the period allocated to Class B shareholders	**12**	-	-	17,464	**17,464**
Total comprehensive income		**-**	**-**	**54,147**	**54,147**
Total equity as of June 30, 2021 (Unaudited)		**1**	**540,198**	**(71,417)**	**468,782**

At June 30, 2020 and 2021, there were 5,000,000 common shares authorized at a $0.01 par value, with 33,250 Class A shares and 15,830 Class B shares issued and outstanding. As of June 30, 2021, the Company held no treasury shares.

See accompanying Notes to the Financial Statements

(1) Nature of Operations

HKN Energy Ltd. (HKN Energy or the Company) is incorporated in the Cayman Islands. The registered office is at 133 Elgin Avenue, George Town, Grand Cayman. The principal activity of the Company is the exploration, development, and production of oil and natural gas in the Kurdistan Region of Iraq ("Kurdistan"). HKN Energy's parent entities are HKN Energy III Ltd. (owner of Class A Shares) and HKN Energy II Ltd. (owner of Class B Shares). The parent entity of HKN Energy III Ltd. and HKN Energy II Ltd. is HKN Holding II (UK) Ltd. HKN Energy's ultimate parent is HKN Energy, LP.

(2) Summary of Significant Accounting Policies

(a) Statement of Compliance

The unaudited financial statements for the six months period ended June 30, 2021 and 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The unaudited financial statements were authorized for issuance by management on August 26, 2021.

The financial statements included in the half-yearly financial report have been prepared on a going concern basis as management considers 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 $131.6 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 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 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 and 2020 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 the Company and other IOCs in Kurdistan that payments for sales from November 2019 to February 2020 would be deferred. See note 19 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 the uncertainty about the timing of supplemental payments (see note 19), 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 and 2020 was the Sarsang block with a carrying value of $408.8 million and $411.9 million, respectively. 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 at June 30, 2021 or 2020 and for those interim periods.

(3) Revenue

In thousands of US dollar	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Revenue		
Oil sales	117,805	53,358
	117,805	**53,358**

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	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Cost of Sales		
Operating expenses	(17,154)	(16,258)
Depletion, depreciation and amortization	(28,888)	(25,220)
Transportation costs	(3,311)	(2,412)
Production bonus	-	(7,750)
	(49,353)	**(51,640)**

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.

Production bonus expense of $7.8 million represents the Company's working interest share of a $10 million Contractor obligation owed to the KRG in 2020 in accordance with the PSC. The corresponding $10 million payable was offset against the outstanding oil sales receivables from the KRG (see further discussion in note 19).

(5) General and administrative expenses

In thousands of US dollar	**Six months ended June 30, 2021 (unaudited)**	**Six months ended June 30, 2020 (unaudited)**
General and administrative expenses		
Personnel costs	(4,548)	(6,223)
Legal and consulting	(1,297)	(2,221)
Office and apartment rent, security and supplies	(1,423)	(1,407)
Travel costs	(192)	(531)
Other general and administrative	(340)	(296)
	(7,800)	**(10,678)**

Personnel costs of $4.5 million and $6.2 million during the six months ended June 30, 2021 and 2020, respectively, 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	**Six months ended June 30, 2021 (unaudited)**	**Six months ended June 30, 2020 (unaudited)**
Finance income		
Interest income on cash held in money market investment account	15	268
Finance expense		
Interest expense from debt	(6,030)	(5,125)
Amortization of debt issuance costs related to debt	(405)	(362)
Interest expense recognized on lease liabilities	(55)	(139)
Other expenses		
Realized loss on derivatives	-	(1,359)
Other expense	(30)	(46)
	(6,505)	**(6,763)**

Other expenses of less than $0.1 million for both of the six months ended June 30, 2021 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	**Six months ended June 30, 2021 (unaudited)**	**Six months ended June 30, 2020 (unaudited)**
Oil & gas assets		
Balance at January 1	563,584	510,136
Additions	34,297	33,775
RoU asset additions	-	82
Capitalized interest	1,077	611
Decommissioning provision	-	425
Balance at period end	**598,958**	**545,029**
Accumulated depletion		
Balance at January 1	(162,109)	(108,669)
Depletion charge	(27,811)	(24,222)
Depreciation of RoU assets	(262)	(260)
Balance at period end	**(190,182)**	**(133,151)**
Carrying value - oil & gas assets		
at January 1	401,475	401,467
at period end	408,776	411,878

The carrying value of oil and gas assets at June 30, 2021 and 2020 is comprised of property, plant and equipment relating to the Sarsang block and has a carrying value of $408.8 million and $411.9 million, respectively.

Additions to the Sarsang asset during the periods presented primarily include costs for the drilling, stimulation and completion of the Swara Tika B-6, Swara Tika B-3, Swara Tika B-2, Swara Tika A-1, and East Swara Tika A-1 wells, and the equipment and construction of a 25,000 barrel per day production facility at the Swara Tika B Pad.

Right-of-use (“RoU”) asset additions of $0.1 million during the six months ended June 30, 2020, are related to an oil production operating facility lease.

As of June 30, 2021 and 2020, $3.0 million and $1.8 million, respectively, of interest expense was capitalized within oil and gas properties in relation to the construction of the 25k barrel per day production facility at the Swara Tika B Pad.

The depletion of oil properties and depreciation of RoU assets have been included within cost of sales on the accompanying statements of comprehensive income (see note 4). The carrying values of oil properties are depreciated 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	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Acquisition cost		
Balance at January 1	9,666	8,368
Additions	360	639
Balance at period end	**10,026**	**9,007**
Accumulated depreciation and impairment		
Balance at January 1	(5,139)	(3,862)
Depreciation charge	(565)	(509)
Depreciation of RoU Assets	(125)	(125)
Balance at period end	**(5,829)**	**(4,496)**
Carrying value		
at January 1	4,527	4,506
at period end	4,197	4,511

Additions to Other Property and Equipment include assets such as containers, housing, computers, and other non-development equipment. 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)	At June 30, 2020 (unaudited)
Inventory		
Warehouse stocks and materials	12,944	13,967
	12,944	**13,967**

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 and 2020, $12.9 million and $14.0 million, respectively, of these assets were included as inventory on the accompanying statements of financial position. Additionally, $0.5 million and $3.5 million of additions to inventory were included in purchases of property and equipment on the accompanying statements of cash flows for the six months ended June 30, 2021 and 2020, respectively.

(10) Trade and other receivables

In thousands of US dollar	At June 30, 2021 (unaudited)	At June 30, 2020 (unaudited)
Trade and other receivables - current		
Receivables from oil sales - current............................	112,002	97,657
Receivables from transportation costs........................	3,579	2,839
Receivables from co-venturer....................................	-	6,503
Other receivables..	8	15
	115,589	**107,014**

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 $112.0 million and $97.7 million at June 30, 2021 and 2020, respectively, are owed to the Company and its co-venturer. A corresponding payable of $25.2 million and $22.0 million at June 30, 2021 and 2020, respectively, is recorded in revenues payable on the accompanying statements of financial position for the portion of this receivable due to the Company's co-venturer (see note 13). See note 19 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 and 2020 included $3.6 million and $2.8 million, respectively, 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 statement of financial position (see note 13). At June 30, 2020, the amount of receivables due from the Company's co-venturer exceeded the amount of cash advances paid, resulting in a net receivable position of $6.5 million.

Other receivables: Other receivables at June 30, 2021 and 2020 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)**	**At June 30, 2020 (unaudited)**
Cash and cash equivalents		
Cash in bank accounts and on hand........................	1,354	1,404
Cash in money market investment account..............	130,291	79,166
Restricted cash..	7,213	6,708
	138,858	**87,278**

See note 14 for information on the restricted cash balance.

(12) Equity

The Company's Class A common shares hold voting, capital and income rights attached to the 52.5% working and 42% participating interest in the Sarsang PSC held by the Company prior to its acquisition of interest from Marathon in 2018, and the Class B common shares hold voting, capital, and income rights attached to the interest acquired from Marathon.

During the six months ended June 30, 2021 and 2020 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 six months ended June 30, 2021, net profit attributable to the Company's Class A and Class B common shareholders was $36.7 million and $17.5 million, respectively. For the six months ended June 30, 2020, net loss attributable to the Company's Class A and Class B common shareholders was $10.7 million and $5.1 million, respectively.

(13) Trade and other payables

In thousands of US dollar	**At June 30, 2021 (unaudited)**	**At June 30, 2020 (unaudited)**
Trade and other payables - current		
Accounts payable..	21,031	29,559
Revenues payable to co-venturer - current................	25,200	21,973
Capital spending advances to co-venturer..................	2,364	-
Transportation payable..	1,636	2,667
Accrued expenses		
Compensation payable...	2,499	1,734
Accrued interest..	3,899	3,720
PSC obligations...	228	11,254
Other accrued expenses...	248	159
	57,105	**71,066**

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 17 for explanation of PSC obligations. Other accrued expenses primarily include payables to related affiliates for general and administrative services (see note 18).

(14) Debt and Finance Income/Expenses

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). The Company 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, 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 $1.7 million in a debt service reserve for the loan included as restricted cash on the accompanying statement of financial position at June 30, 2021. Per the loan's financial covenants, the Company must maintain a Reserve Tail Ratio of no less than 20%, a ratio of Current Assets to Current Liabilities of 1:1, and funds or assets on deposit with a market value at least equal to the Debt Service Reserve Requirement (see discussion above). Upon completion of the production facility, the Company must maintain a ratio of Net Cash Flow to Debt Service of not less than 1.4 to 1 for both the most recently completed and the next succeeding four consecutive full fiscal quarters. As of June 30, 2021, 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 authorized 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 statement of financial position at June 30, 2021. Per the bond's financial covenants, the Company must maintain a minimum Equity Ratio of 40%, and a minimum liquidity of 1.5 times the estimated next 12 months interest based on the outstanding debt as of the calculation date. As of June 30, 2021, 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 authorized to be issued.

The net proceeds from the debt instruments have been and will continue to be used to fund ongoing operations of the Company. At June 30, 2021 and 2020, total non-current debt, net of debt issuance costs and fees, was $146.5 million and $134.3 million, respectively, and consisted of the following:

In thousands of US dollar	**At June 30, 2021 (unaudited)**	**At June 30, 2020 (unaudited)**
Debt, net of issuance costs and fees		
Debt payable.........	149,000	137,500
Debt issuance costs and fees.........	(4,177)	(4,030)
Amortization of debt issuance costs and fees.........	1,635	819
	146,458	**134,289**

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	107,000
2025	7,000
Thereafter	24,500
	149,000

At June 30, 2021 and 2020, accrued interest was $3.9 million and $3.7 million, respectively, included within Trade and Other Payables on the accompanying statement of financial position (see note 13). For the six months ended June 30, 2021 and 2020, finance income and finance expense consisted of the following:

In thousands of US dollar	**Six months ended June 30, 2021 (unaudited)**	**Six months ended June 30, 2020 (unaudited)**
Finance income		
Interest income from money market account.........	15	268
	15	**268**
Finance expense		
Cash payments for interest.........	(7,013)	(5,500)
Change in interest accrual.........	(94)	(236)
Amortization of debt issuance costs and fees.........	(405)	(362)
Interest expense on leases.........	(55)	(139)
Transfer to capitalized interest.........	1,077	611
	(6,490)	**(5,626)**

(15) Lease liabilities

As of June 30, 2021 and 2020, current lease liabilities of $2.3 million and $4.7 million, respectively, and non-current lease liabilities of $0.6 million and $0.8 million, respectively, are included on the accompanying statement of financial position.

In thousands of US dollar	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Lease liabilities		
Balance at January 1	4,375	7,400
Remeasurement of lease liability	-	82
Lease payments	(1,562)	(2,133)
Interest expense	55	139
Balance at period end	**2,868**	**5,488**
Current portion (within one year)	2,315	4,673
Non-current portion (two to five years)	553	815
	2,868	**5,488**

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 $0.3 million and $0.1 million for the six months ended June 30, 2021 and 2020, respectively, and were recognized within general and administrative expenses.

In thousands of US dollar	At June 30, 2021 (unaudited)	At June 30, 2020 (unaudited)
Lease maturity analysis		
Year 1	2,053	1,146
Year 2	-	3,282
Year 3	396	-
Year 4	419	541
Year 5	-	519
	2,868	**5,488**
Amounts payable under leases		
Within one year	2,348	2,747
Two to five years	582	2,930
	2,930	**5,677**
Less future interest charges	(62)	(189)
Less future remeasurement of lease liability	-	-
Net present value of lease obligations	**2,868**	**5,488**

(16) Decommissioning provisions

In thousands of US dollar	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Decommissioning provisions		
Balance at January 1	6,316	4,629
Additions	-	425
Accretion expense	125	104
Balance at period end	**6,441**	**5,158**

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.

(17) 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.

The Company 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 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 19). 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 expensed within operating expenses on the accompanying statement of comprehensive income 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 million will be owed by the Contractor to the KRG. The Company anticipates reaching the fourth production threshold in 2022. The production bonuses represent an outflow of the Company'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 financial statements were authorized to be issued.

(18) Related Party Transactions

On a periodic basis, net amounts due to and from affiliates under common control are settled through cash payments and cash receipts from affiliates. During the six months ended June 30, 2021 and 2020, the Company paid general and administrative expenses of $0.4 million and $0.5 million, respectively, to related entities for management and administrative services provided to the Company, and rent. At June 30, 2021 and 2020, there was a net related party receivable outstanding of $0.7 million and $0.1 million, respectively, as intercompany receivables on the accompanying statements of financial position.

(19) 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, amounting to $86.1 million ($66.7 million net to the Company). 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.

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, the Company 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, the Company 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 the Company) 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 the Company. Additionally, the Company 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 the Company) still outstanding from the KRG as of June 30, 2021.

The following table summarizes the changes in Receivables from Oil Sales, within Trade and Other Receivables in the accompanying statements of financial position, from June 30, 2020 to June 30, 2021:

In thousands of US dollar	
Receivables from oil sales	
Balance at June 30, 2020	97,657
Total contractor revenue from KRG purchases during the period	89,619
KRG payments for oil sales during the period	(80,648)
Liabilities owed to the KRG offset against receivables	(20,987)
Balance at December 31, 2020	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

The Company 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, the Company 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, the Company believes the oil sales receivables will be recovered in full.

(20) Derivative Instruments

In May 2020, the Company purchased two Dated Brent put option contracts, which represent options to sell crude oil at a specific exercise price. The options were purchased for a total premium of $2.0 million. Both contracts have identical terms: 100,000 bbls/month for the period June 2020 to December 2020 (total volume of 700,000 bbls), and a strike price of $25/bbl. Monthly settlements are calculated using prices obtained from the counterparties. These derivative financial instruments are not designated as hedging instruments. At June 30, 2020, the derivatives were recorded as current assets on the accompanying statement of financial position at a fair value of $0.6 million. The fair value represents the $2.0 million total premium net of a $0.3 million realized loss and a $1.1 million unrealized loss on derivatives, which are included on the accompanying statement of comprehensive income. The Company did not have any derivative instruments as of June 30, 2021.

(21) Subsequent Events

On August 5, 2021, the Company 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), and $3.6 million was a supplemental payment due to Dated Brent prices exceeding $50 per Bbl in May 2021 (see note 19).

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