HKN ENERGY LTD.

Financial Statements

December 31, 2020 and 2019, and January 1, 2019

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
HKN Energy Ltd.:

Report on the Financial Statements

We have audited the accompanying financial statements of HKN Energy Ltd., which comprise the statements of financial position as of December 31, 2020 and 2019 and January 1, 2019, and the related statements of comprehensive income (loss), changes in equity, and cash flows for the years ended December 31, 2020 and 2019, 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 International Financial Reporting Standards as issued by the International Accounting Standards Board; 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.

KPMG

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 January 1, 2019, and its financial performance and its cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

Dallas, Texas
August 26, 2021

HKN ENERGY LTD.

Statements of Financial Position

December 31, 2020 and 2019, and January 1, 2019

In thousands of US dollar

	Note	December 31, 2020	December 31, 2019	January 1, 2019
ASSETS				
Non-current assets				
Property and equipment - oil properties (net)	**8**	401,475	401,467	324,579
Other property and equipment (net)	**9**	4,527	4,506	3,474
Trade and other receivables	**11**	27,900	-	-
Total non-current assets		**433,902**	**405,973**	**328,053**
Current assets				
Inventory	**10**	14,013	13,538	11,687
Prepaid expenses		358	1,216	690
Trade and other receivables	**11**	63,455	110,708	63,163
Intercompany receivables	**20**	75	34	27
Cash and cash equivalents	**12**	83,309	83,071	32,715
Restricted cash	**12**	6,789	-	-
Total current assets		**167,999**	**208,567**	**108,282**
TOTAL ASSETS		**601,901**	**614,540**	**436,335**
EQUITY AND LIABILITIES				
Equity				
Share capital		1	1	1
Additional paid-in capital		540,198	540,198	540,198
Accumulated deficit		(125,564)	(114,540)	(173,911)
Total equity	**13**	**414,635**	**425,659**	**366,288**
Non-current liabilities				
Trade and other payables	**14**	6,277	-	-
Debt (net of issuance costs and fees)	**15**	134,553	97,713	-
Lease liabilities	**16**	686	4,702	7,400
Decommissioning provisions	**17**	6,316	4,629	3,820
Total non-current liabilities		**147,832**	**107,044**	**11,220**
Current liabilities				
Trade and other payables	**14**	35,745	79,139	54,059
Lease liabilities	**16**	3,689	2,698	4,768
Total current liabilities		**39,434**	**81,837**	**58,827**
Total liabilities		**187,266**	**188,881**	**70,047**
TOTAL EQUITY AND LIABILITIES		**601,901**	**614,540**	**436,335**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Comprehensive Income (Loss)

Years ended December 31, 2020 and 2019

In thousands of US dollar

	Note	2020	2019
Continuing operations			
Revenue	**4**	122,813	189,913
Cost of sales	**5**	98,083	100,368
Gross profit		**24,730**	**89,545**
General and administrative expenses	**6**	21,284	23,276
Profit from operating activities		**3,446**	**66,269**
Finance income	**7**	282	2,023
Finance expenses	**7, 15**	(12,734)	(8,740)
Realized loss on derivatives	**7, 18**	(1,953)	-
Other expense	**7**	(65)	(181)
Total comprehensive income (loss)		**(11,024)**	**59,371**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Cash Flow Statements

Years ended December 31, 2020 and 2019

In thousands of US dollar

	Note	2020	2019
OPERATING ACTIVITIES			
Profit/(loss) before income tax		(11,024)	59,371
Adjustments to add (deduct) non-cash items:			
Depreciation, depletion and amortization	**8, 9, 17**	54,924	56,925
Finance income and expenses		12,452	6,717
Changes in working capital and provisions:			
Trade and other receivables	**11**	(1,747)	(47,431)
Intercompany receivables		(41)	(7)
Prepaid expenses		858	(526)
Trade and other payables	**14**	(634)	13,181
Cash from operating activities		**54,788**	**88,230**
Interest received		394	1,908
Interest paid	**15**	(12,205)	(5,500)
Net cash from operating activities		**42,977**	**84,638**
INVESTING ACTIVITIES			
Purchases of property and equipment	**8, 10**	(68,697)	(126,320)
Net cash used in investing activities		**(68,697)**	**(126,320)**
FINANCING ACTIVITIES			
Proceeds from debt, net of fees	**15**	37,059	97,500
Debt issuance costs	**15**	(992)	(244)
Payments of lease liabilities	**16**	(3,320)	(5,218)
Net cash from financing activities		**32,747**	**92,038**
Net increase in cash and cash equivalents, and restricted cash		**7,027**	**50,356**
Cash and cash equivalents, and restricted cash at beginning of the period		83,071	32,715
Cash and cash equivalents, and restricted cash at end of the period	**12**	**90,098**	**83,071**
Of which restricted cash	12	6,789	-

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Changes in Equity

Years ended December 31, 2020 and 2019

In thousands of US dollar

	Note	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
Total equity as of January 1, 2019		**1**	**540,198**	**(173,911)**	**366,288**
Profit for the period allocated to Class A shareholders	**13**	-	-	40,222	**40,222**
Profit for the period allocated to Class B shareholders	**13**	-	-	19,149	**19,149**
Total comprehensive income		**-**	**-**	**59,371**	**59,371**
Total equity as of December 31, 2019		**1**	**540,198**	**(114,540)**	**425,659**
Total equity as of January 1, 2020		**1**	**540,198**	**(114,540)**	**425,659**
Loss for the period allocated to Class A shareholders	**13**	-	-	(7,468)	**(7,468)**
Loss for the period allocated to Class B shareholders	**13**	-	-	(3,556)	**(3,556)**
Total comprehensive loss		**-**	**-**	**(11,024)**	**(11,024)**
Total equity as of December 31, 2020		**1**	**540,198**	**(125,564)**	**414,635**

At December 31, 2020 and 2019, 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 December 31, 2020, 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.

In November 2007, HKN Energy entered into a Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("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 interest (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% to 35%, based upon an "R" factor where "R" equals cumulative revenues divided by cumulative costs,

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

The Company's revenue entitlement percentage of Sarsang block crude oil sales proceeds for the years ended December 31, 2020 and 2019 was 38.9%.

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

- The validity of PSCs entered into by the KRG has been historically contested in public statements made by officials of the Iraq Oil Ministry, with the assertion that the KRG Oil Law (which, among other things, confers upon the KRG the right to enter into PSCs covering territory under the jurisdiction of the KRG) violates the Iraqi Constitution. The Company does not agree with the assertions of the Iraqi Oil Ministry based on its analysis of the Iraqi Constitution and KRG Oil Law and has no reason to believe its PSC is not a valid contract.

- 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 3(e)(ii) and note 21.

(2) Explanation of Transition to International Financial Reporting Standards ("IFRSs")

The Company transitioned to IFRSs from U.S. generally accepted accounting principles ("US GAAP") effective January 1, 2019. These are the Company's first annual financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of IFRS* has been applied. IFRS 1 requires retrospective application of IFRSs in effect at the reporting date. However, to assist companies with transition, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application.

The accounting policies set out in note 3 have been applied in preparing the financial statements as of and for the year ended December 31, 2020, the comparative information as of and for the year ended December 31, 2019, and the opening IFRS statement of financial position as of January 1, 2019. As part of the adoption of IFRS, the Company applied IFRS 9 *Financial Instruments,* IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* in accordance with the transitional provisions of IFRS 1.

An explanation of the significant transitional adjustments as a result of the transition from US GAAP to IFRS on the Company's financial position, financial performance, and cash flows is set out in the following notes and the tables in note 23. The table below demonstrates the impact of the transition on equity as at the transition date to IFRS and at December 31, 2020 and 2019, and total comprehensive income for the years ended December 31, 2020 and 2019, as presented in the Company's most recent annual financial statements under US GAAP. See note 23 for a detail of the transition adjustments by financial statement caption.

In thousands of US dollar	**US GAAP**	**Transition Adjustments**	**IFRS**
Total equity			
Balance at January 1, 2019	424,036	(57,748)	366,288
Balance at December 31, 2019	476,629	(50,970)	425,659
Balance at December 31, 2020	466,411	(51,776)	414,635
Total comprehensive income (loss)			
For the year ended December 31, 2019	52,593	6,778	59,371
For the year ended December 31, 2020	(10,218)	(806)	(11,024)

Transition adjustments are adjustments made to comply with changes in accounting policies upon transitioning from US GAAP to IFRS. These are further described below. These transition adjustments did not result in material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under US GAAP.

In addition to the changes required to adjust for the accounting policy differences described in the following notes, and some presentation changes, interest paid has been included in the statement of cash flows.

(a) Cost of oil properties

On transition to IFRS, the Company remeasured retrospectively the carrying amount of its oil and gas assets by converting its existing US GAAP Full Cost oil and gas assets to apply the successful efforts method using historical accounting records. Under successful efforts, exploration and evaluation costs are expensed as incurred other than costs directly associated with discovering proved crude oil and natural gas reserves. Costs associated with ongoing development of proved reserves are capitalized. Previously under the US GAAP full costs method, all costs associated with the exploration of properties were capitalized within an appropriate cost pool.

In transitioning its property and equipment – oil properties to successful efforts, the Company's adjustments included the following:

- Expensed previously capitalized internal overhead costs, production bonus payments, and seismic costs of $42.1 million, $3.9 million, and $41.2 million, respectively;
- Reversed previously recorded impairments under the full-cost method and recorded impairments under successful efforts, resulting in net additions to the carrying amount of $21.2 million;
- Recalculated depletion expense associated with its oil properties resulting in net additions to the carrying amount of $8.3 million.

HKN's policy is disclosed on the note 3(h) – Property and Equipment - Oil Properties.

(b) Leases

In order to transition to IFRSs, the Company adopted IFRS 16 *Leases,* which resulted in the recognition of right-of-use (RoU) assets and lease liabilities upon conversion. Under ASC 840 *Leases*, the Company's operating leases were not recognized on the balance sheet, but rather lease payments were expensed on a straight-line basis over the term of the lease.

For leases previously classified as operating leases under ASC 840, the lease liabilities as of January 1, 2019 were initially measured as the present value of the remaining lease payments for a total of $12.2 million. The discount rate used is the Company's incremental borrowing rate as of January 1, 2019. The RoU assets are reflected at an amount equal to the lease liability as of the date of transition. Leases for which the lease term ends within 12 months of January 1, 2019 are expensed on a straight-line basis over the remaining lease term.

In the statements of comprehensive income, the Company recognized a decrease to cost of sales and general and administrative expenses for the removal of lease expense for operating leases recognized under US GAAP. The Company also recognized an increase to finance expenses due to the accretion of lease liabilities.

HKN's policy is disclosed on the note 3(o) – Leases.

(c) Capitalized Interest

IFRS requires that interest expense on debt directly attributable to the construction phase of property and equipment assets are capitalized during the period required to complete and prepare the asset for its intended use. In order to transition to IFRSs, the Company recorded capitalized interest costs within Oil Properties in 2019 and 2020 of $1.1 million and $0.8 million, respectively.

HKN's policy is disclosed on the note 3(h) – Property and Equipment – Oil Properties.

(3) Summary of Significant Accounting Policies

(a) Statement of Compliance

The financial statements have been prepared in accordance with IFRSs as adopted by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issuance by management on August 26, 2021.

(b) Basis of Accounting

The financial statements have been prepared under the historical cost basis, with the exception of derivatives which are recognized at fair value on a recurring basis. The principal accounting policies adopted are set out below.

(c) 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 $83.3 million at December 31, 2020, 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.

(d) 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 (see note 1). 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 11 and 14).

(e) 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.

See further information regarding revenue recognition in note 3(g).

(ii) Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties at December 31, 2020 and 2019 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. As of December 31, 2020, the Company had $86.1 million ($66.7 million net to the Company) of overdue invoices in relation to this period. 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 21 for further discussion. The first payment toward the outstanding balance was received in March 2021.

While the Company continues to expect to recover the full $86.1 million from the KRG, the Company determined it was appropriate to present a portion of the outstanding receivables from oil sales as non-current as of December 31, 2020. Due to uncertainty about the timing of supplemental payments (see note 21), 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.

Impairment of oil properties

In line with the Company's accounting policy on impairment (see note 3(j)), 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 December 31, 2020 was the Sarsang block with a carrying value of $401.5 million. The Company performed an impairment indicator evaluation considering the impact of COVID-19, the decline in oil prices in 2020, 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.

Key estimations and assumptions in the impairment assessment include, but are not limited to:

- Estimates of proven and probable oil reserves;
- Assumptions used in relation to calculation of fair values and recoverable amounts, such as future oil prices, weighted average cost of capital (WACC), timing of cash flows, operating costs and future investments;
- Estimates of future oil production due to subsurface uncertainties;
- Estimates of decommissioning provisions; and
- Estimates of the timing of revenue receipts

(f) Foreign Currencies

For the purpose of the financial statements, the results and the financial position of the Company are expressed in US dollar, which is the functional currency of the Company, and the presentation currency for the financial statements. There was no change in either functional currency or presentation currency upon adoption of IFRS.

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the statement of comprehensive income for the year.

(g) Revenue Recognition

IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The standard establishes a five-step model to account for revenue arising from contracts with customers. A contract exists and is in the scope of IFRS 15 when the contract is legally enforceable and certain criteria, including collectability, are met. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

As disclosed in note 3(e)(i), management assesses whether collection of the consideration that the Company expects to be entitled to is probable based on its evaluation of the reliability of the KRG's payments to the IOCs operating in Kurdistan. 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.

Under the Sarsang PSC, the contractors' entitlement of crude oil is sold entirely to the KRG at the delivery point agreed to in the sales contract. The transaction price is defined per the contract and the consideration for deliveries in a given month is specifically allocated to the delivery of crude oil in that month. The Company recognizes revenue at the delivery point, when the KRG obtains control of the product and its performance obligation is satisfied.

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.

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 received within thirty to sixty days following delivery.

(h) Property and Equipment – Oil Properties

The Company follows the successful efforts method of accounting for exploration and evaluation ("E&E") costs. The Company transferred all E&E costs associated with successful discovery of commercial reserves to Property and Equipment – Oil Properties upon entering the development phase in 2014. As of December 31, 2020 and for all periods presented, the Company's oil properties are in the development phase.

All costs associated with the development of oil fields are capitalized and included in Property and equipment – oil properties on the accompanying statements of financial position. For accounting purposes, an oil field is considered to enter the development phase when the technical feasibility and commercial viability of extracting oil from the field are demonstrable. Property is recognized at historical cost and adjusted for accumulated depletion and impairment charges. The carrying amount of oil properties as stated in the accompanying statements of financial position represents the cost less accumulated depletion and impairment charges.

Development and production assets represent the cost of developing commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above.

Geological and Geophysical Costs

All geological and geophysical expenses were capitalized within Oil Properties during 2020 and 2019, as the Company was in the development phase.

Capitalized Interest

The Company capitalizes interest expense related to debt incurred to finance the construction of qualifying assets. A qualifying asset is an asset that takes more than one year to be ready for its intended use. 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.

Depletion of Oil Properties

Producing assets are depleted generally on a PSC-wide basis using the unit-of-production basis of accounting which uses the ratio of oil and gas production in the period to the remaining commercial reserves plus the production in the period. Under the unit of production method, depletion of oil producing assets commences upon initial commercial production. Costs used in the calculation comprise the carrying value of the field, and any further anticipated costs to develop such reserves.

Commercial reserves are proven ("1P") reserves.

(i) Other Property and Equipment

Other property and equipment, which consist of containers, automobiles, leasehold improvements, office furniture, and other equipment not associated with the exploration, development, and production of oil and natural gas reserves, are recognized at cost and depreciated on a straight line basis over the estimated useful lives. The carrying amount of other property and equipment as stated in the accompanying statements of financial position represents the cost less accumulated depreciation charges and any accumulated impairment losses.

The estimated useful lives are as follows:

Containers	7 Years
Automobiles	5 Years
Leasehold improvements	1-6 Years
Office furniture	5 Years
Other equipment	3-5 Years

Gain or loss arising from the derecognition of other property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognized in other operating income/expenses in the statement of comprehensive income.

(j) Impairment of non-financial assets

The carrying amounts of the Company's oil assets and other property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. For value in use, the estimated future cash flows arising from the Company's future plans for the asset are discounted to their present value using a pre-tax discount rate that reflects market assessments of the time value of money and the risks specific to the asset. For fair value less costs of disposal, an estimation is made of the fair value of consideration that would be received to sell an asset less associated selling costs.

Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash generating unit). The Company has one cash generating unit (the Sarsang block as a whole), therefore groups its assets on a concession-wide basis.

The estimated recoverable amount is then compared to the carrying value of the asset. Where the estimated recoverable amount is lower than the carrying value of the asset an impairment loss is recognized. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Inventory

Inventory consists of amounts paid toward ownership of well equipment, parts, and supplies, which the Company plans to use in its ongoing exploration and development activities in Kurdistan and which are carried at the lower of cost and realizable value.

(l) Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Financial assets and liabilities are recognized on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instruments.

(i) Cash and cash equivalents, and restricted cash

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments and the Company's share of cash held in joint operations.

Restricted cash represents cash balances held in debt service reserve accounts pursuant to the Company's debt agreements (see note 15).

(ii) Trade and other receivables

The majority of trade receivables are due from KRG, the Company's purchaser of oil, and from co-venturers, both of which are recorded at invoiced amounts and do not bear interest. Trade and other receivables are subsequently measured at amortized cost, less any impairment.

The Company recognizes loss allowances for expected credit losses ("ECLs") on financial assets measured at amortized cost. For accounts receivable, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The carrying amount of these assets in the statements of financial position is stated net of any loss allowance.

The Company considers that the carrying amount of trade receivables approximates their fair value.

(iii) Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost. The Company considers that the carrying amount of trade payables approximates their fair value.

(iv) Interest-bearing liabilities

All interest-bearing 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 (finance costs) in the statement of comprehensive income using the effective interest method.

(v) Derivative financial instruments

The Company enters into derivative financial instruments in order to manage its exposure to oil price risk. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss. These instruments have not been designated as hedging instruments.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(m) Fair Value Measurements

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(n) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Company’s best estimate of the expenditure required to settle the obligation at the statement of financial position date and are discounted to present value where the effect is material. At December 31, 2020 and 2019, and January 1, 2019, the Company had only made provision for decommissioning costs.

Decommissioning

Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding cost is capitalized to oil and gas properties and subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision. The accretion of the discounted liability is included within Cost of Sales in the statement of comprehensive income.

Decommissioning provisions are recognized at the present value of expected future cash flows, discounted using a pre-tax discount rate. The discount rate is updated at each statement of financial position date, if necessary, and reflects the risks inherent in the asset.

(o) Leases

IFRS 16 outlines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statement of financial position model. Upon commencement of a lease, the lessee recognizes a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term (right-of-use asset or RoU asset). Lessees are required to separately recognize interest expense on the lease liability and depreciation expense on the RoU asset.

The RoU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The RoU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index rate, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases or low value items, and instead recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As of December 31, 2020, the Company's accompanying statement of financial position includes right-of-use ("RoU") assets of $10.8 million ($10.0 million included in oil properties and $0.8 million included in other property and equipment) and lease liabilities of $4.4 million ($3.7 million current and $0.7 million non-current). As of December 31, 2019, the Company's accompanying statement of financial position includes right-of-use ("RoU") assets of $11.5 million ($10.4 million included in oil properties and $1.1 million included in other property and equipment) and lease liabilities of $7.4 million ($2.7 million current and $4.7 million non-current).

(p) Taxes

The income tax basis results of realized operations of the Company are included in the United States federal income tax returns of the individual 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 KRG that has resulted in no tax liability owed to the KRG through the date of this report.

Under the terms of the Sarsang PSC, 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.

(q) Production bonuses

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 such as the production bonus payments. These include Contractor obligations of up to $37.5 million due to the KRG upon meeting four defined thresholds during the development phase of the PSC, of which $2.5 million and $5 million was paid by the Contractors to the KRG in 2014 and 2018, respectively.

These payments have been assessed as levies under IFRIC 21 *Levies*. The Company recognizes a liability to pay the levy when the obligating event in the legislation has occurred, which is when the required cumulative production thresholds have been reached.

(r) Standards issued but not yet effective

The following new and amended standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements and does not expect them to have a significant impact on the Company's financial statements.

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Annual Improvements to IFRS Standards 2018–2020 Cycle (Amendments to IFRS 1, IFRS 9, IAS 41 and IFRS 16)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Definition of Accounting Estimates (Amendments to IAS 8).

(4) Revenue

In thousands of US dollar	**2020**	**2019**
Revenue		
Oil sales	122,813	189,913
	122,813	**189,913**

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

(5) Cost of Sales

In thousands of US dollar	**2020**	**2019**
Cost of Sales		
Operating expenses	(30,774)	(36,061)
Depletion, depreciation and amortization	(54,924)	(56,925)
Transportation costs	(4,635)	(7,382)
Production bonus	(7,750)	0
	(98,083)	**(100,368)**

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 (see note 3(h)), straight-line depreciation of other property and equipment (see note 3(i)), accretion expense on decommissioning provision (see note 3(n)), and depreciation of RoU assets recognized under IFRS 16 (see note 3(o)).

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 21).

(6) General and administrative expenses

In thousands of US dollar	**2020**	**2019**
General and administrative expenses		
Personnel costs	(12,483)	(10,805)
Legal and consulting	(4,210)	(6,254)
Office and apartment rent, security and supplies	(3,176)	(4,001)
Travel costs	(434)	(1,253)
Other general and administrative	(981)	(963)
	(21,284)	**(23,276)**

Personnel costs of $12.4 million and $10.8 million in 2020 and 2019, respectively, include salaries, bonuses, employer's payroll tax expenses, deferred compensation and other miscellaneous personnel costs.

(7) Finance income and expense / Other expenses

In thousands of US dollar	**2020**	**2019**
Finance income		
Interest income on cash held in money market investment account....	282	2,023
Finance expenses		
Interest expense from bonds......	(11,748)	(7,833)
Amortization of debt issuance costs related to bonds......	(773)	(457)
Interest expense recognized on lease liabilities......	(213)	(450)
Other expenses		
Realized loss on derivatives......	(1,953)	0
Other expense......	(65)	(181)
	(14,470)	**(6,898)**

Other expenses of $0.1 million and $0.2 million in 2020 and 2019 respectively 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.

(8) Property and equipment – oil properties

In thousands of US dollar	**2020**	**2019**
Oil & gas assets		
Balance at January 1......	510,136	377,433
Additions......	51,109	130,917
RoU asset additions......	82	-
Capitalized interest......	778	1,151
Decommissioning provision......	1,479	635
Balance at December 31......	**563,584**	**510,136**
Accumulated depletion and impairment		
Balance at January 1......	(108,669)	(52,854)
Depletion charge......	(52,918)	(55,295)
Depreciation of RoU assets......	(522)	(520)
Balance at December 31......	**(162,109)**	**(108,669)**
Carrying value - oil & gas assets		
at January 1......	401,467	324,579
at December 31......	401,475	401,467

The carrying value of oil and gas assets at December 31, 2020 and 2019, and January 1, 2019 is comprised of property, plant and equipment relating to the Sarsang block and has a carrying value of $401.5 million, $401.5 million and $324.6 million, respectively.

Additions to the Sarsang asset during 2020 primarily include costs for the drilling, stimulation and completion of the Swara Tika B-2, Swara Tika B-3, 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. Additions to the Sarsang asset during 2019 primarily include costs for the drilling, stimulation and completion of the Swara Tika B-2, Swara Tika A-1 and East Swara Tika A-1 wells, the equipment and construction of the 25,000 barrel per day production facility at the Swara Tika B Pad, and seismic data acquisition related to development activities.

RoU asset additions of $0.1 million in 2020 are related to oil production operating facilities leases.

As of December 31, 2020 and 2019, $1.9 million and $1.2 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 (see discussion of accounting policy in note 3(h)).

The $53.0 million and $55.3 million depletion of oil properties in 2020 and 2019, respectively, as well as the $0.5 million depreciation of RoU assets in both 2020 and 2019, have been included within cost of sales on the accompanying statements of comprehensive income (see note 5).

For details of the key assumptions and judgements underlying the impairment assessment, refer to note 3(e) - Use of Judgments and Estimates.

(9) Other property and equipment

In thousands of US dollar	**2020**	**2019**
Acquisition cost		
Balance at January 1	8,368	6,400
Additions	1,298	1,968
Balance at December 31	**9,666**	**8,368**
Accumulated depreciation and impairment		
Balance at January 1	(3,862)	(2,926)
Depreciation charge	(1,026)	(787)
Depreciation of RoU Assets	(251)	(149)
Balance at December 31	**(5,139)**	**(3,862)**
Carrying value		
at January 1	4,506	3,474
at December 31	4,527	4,506

Additions to Other Property and Equipment include assets such as containers, housing, computers, and other non-development equipment.

(10) Inventory

In thousands of US dollar	**December 31, 2020**	**December 31, 2019**	**January 1, 2019**
Inventory			
Warehouse stocks and materials	14,013	13,538	11,687
	14,013	**13,538**	**11,687**

As of December 31, 2020 and 2019, and January 1, 2019, $14.0 million, $13.5 million and $11.7 million, respectively, of these assets were included as inventory on the accompanying statements of financial position. Additionally, $4.8 million and $5.6 million of additions to inventory were included in purchases of property and equipment on the accompanying statements of cash flows for the years ended December 31, 2020 and 2019, respectively.

(11) Trade and other receivables

In thousands of US dollar	December 31, 2020	December 31, 2019	January 1, 2019
Trade and other receivables - current			
Receivables from oil sales - current	57,741	99,435	57,171
Receivables from transportation costs	3,034	3,154	1,878
Receivables from co-venturer	2,673	7,983	4,102
Other receivables	7	136	12
	63,455	**110,708**	**63,163**
Trade and other receivables - non-current			
Receivables from oil sales - non-current	27,900	-	-
	27,900	**-**	**-**

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 non-current), $99.4 million and $57.2 million at December 31, 2020 and 2019, and January 1, 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 non-current), $22.4 million and $12.9 million, at December 31, 2020 and 2019, and January 1, 2019, 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 21 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 non-current. The amount determined to be non-current 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 non-current receivable. Correspondingly, the co-venturer’s share of the receivables was classified as a non-current payable.

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 December 31, 2020 and 2019, and January 1, 2019 included $3.0 million, $3.2 million and $1.9 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 December 31, 2020 and 2019, and January 1, 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, $8.0 million and $4.1 million, respectively.

Other receivables: Other receivables at December 31, 2020 and 2019, and January 1, 2019 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.

(12) Cash and cash equivalents, and restricted cash

In thousands of US dollar	December 31, 2020	December 31, 2019	January 1, 2019
Cash and cash equivalents, and restricted cash			
Cash in bank accounts and on hand.......................	1,129	2,731	997
Cash in money market investment account.............	82,180	80,340	31,718
Restricted cash..	6,789	-	-
	90,098	**83,071**	**32,715**

See note 15 for information on the restricted cash balance.

(13) 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 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 $7.5 million and $3.5 million, respectively. For the year ended December 31, 2019, net profit attributable to the Company's Class A and B common shareholders was $40.2 million and $19.2 million, respectively.

(14) Trade and other payables

In thousands of US dollar	December 31, 2020	December 31, 2019	January 1, 2019
Trade and other payables - current			
Accounts payable..	13,132	44,780	33,509
Revenues payable to co-venturer - current...........	12,991	22,373	12,863
Transportation payable......................................	2,031	3,868	3,794
Accrued expenses			
Compensation payable.....................................	3,665	3,400	3,088
Accrued interest..	3,805	3,484	-
PSC obligations..	57	1,083	741
Other accrued expenses....................................	64	151	64
	35,745	**79,139**	**54,059**
Trade and other payables - non-current			
Revenues payable to co-venturer - non-current.....	6,277	-	-
	6,277	**-**	**-**

Accounts payable comprise invoices due to suppliers and are normally settled within 30 days. See note 11 for explanation of revenues 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 15). See note 19 for explanation of PSC obligations. Other accrued expenses primarily include payables to related affiliates for general and administrative services (see note 20).

(15) Debt and Finance Income/Expense

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 statement of financial position 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 and during all interim testing periods within the year, 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 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 and during all interim testing periods within the year, 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 December 31, 2020 and 2019, and January 1, 2019, total non-current debt, net of debt issuance costs and fees, was $134.6 million, $97.7 million, and $0, respectively, and consisted of the following:

In thousands of US dollar	**December 31, 2020**	**December 31, 2019**	**January 1, 2019**
Debt, net of issuance costs and fees			
Debt payable……………………………………………………	137,500	100,000	-
Debt issuance fees………………………………………	(2,941)	(2,500)	-
Debt issuance costs………………………………………	(1,236)	(244)	-
Amortization of debt issuance costs and fees….........	1,230	457	-
	134,553	**97,713**	**-**

The increase in debt (net of issuance costs and fees) of $36.8 million during 2020 consists of $36.0 million of net cash flows from debt proceeds and payments of debt issuance costs, and $0.8 million of non-cash changes from the amortization of debt issuance costs and fees. The increase in debt (net of issuance costs and fees) of $97.7 million during 2019 consists of $97.3 million of net cash flows from debt proceeds and payments of debt issuance costs, and $0.4 million of non-cash changes from the amortization of debt issuance costs and fees.

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	
2020	-
2021	-
2022	2,679
2023	5,357
2024	105,357
Thereafter	24,107
	137,500

At December 31, 2020 and 2019, accrued interest was $3.8 million and $3.5 million, respectively, included within Trade and Other Payables on the accompanying statements of financial position (see note 14). For the years ended December 31, 2020 and 2019, finance income and finance expense consisted of the following:

In thousands of US dollar	**2020**	**2019**
Finance income		
Interest income from money market account	282	2,023
	282	**2,023**
Finance expense		
Cash payments for interest	(12,205)	(5,500)
Change in interest accrual	(321)	(3,484)
Amortization of debt issuance costs and fees	(773)	(457)
Interest expense on leases	(213)	(450)
Transfer to capitalized interest	778	1,151
	(12,734)	**(8,740)**

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 statements of financial position within Trade and Other Receivables (see note 11).

(16) Lease liabilities

On transition to IFRS 16 *Leases* as of January 1, 2019, the Company recognized $12.1 million of lease liabilities related to non-cancellable leases of oil production operating facilities and the fixed rent component of office space leases. As of December 31, 2020 and 2019, and January 1, 2019, current lease liabilities of $3.7 million, $2.7 million, and $4.8 million, respectively, and non-current lease liabilities of $0.7 million, $4.7 million, and $7.4 million, respectively, are included on the accompanying statements of financial position.

In thousands of US dollar	**2020**	**2019**
Lease liabilities		
Balance at January 1	7,400	12,168
Remeasurement of lease liability	82	-
Lease payments	(3,320)	(5,218)
Interest expense	213	450
Balance at December 31	**4,375**	**7,400**
Current portion (within one year)	3,689	2,698
Non-current portion (two to five years)	686	4,702
	4,375	**7,400**

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 $0.6 million for the years ended December 31, 2020 and 2019, respectively, and were recognized within general and administrative expenses.

In thousands of US dollar	**2020**	**2019**
Lease maturity analysis		
Year 1	3,436	-
Year 2	-	6,281
Year 3	469	-
Year 4	470	612
Year 5	-	507
	4,375	**7,400**
Amounts payable under leases		
Within one year	3,760	3,319
Two to five years	731	4,492
	4,491	**7,811**
Less future interest charges	(116)	(329)
Less future remeasurement of lease liability	-	(82)
Net present value of lease obligations	**4,375**	**7,400**

(17) Decommissioning provisions

In thousands of US dollar	**2020**	**2019**
Decommissioning provisions		
Balance at January 1	4,629	3,820
Additions	1,480	635
Accretion expense	207	174
Balance at December 31	**6,316**	**4,629**

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) Financial instruments – Fair Value and Risk Management

In thousands of US dollar	December 31, 2020	December 31, 2019	January 1, 2019
Financial assets			
Cash and cash equivalents, and restricted cash....	90,098	83,071	32,715
Trade and other receivables................................	91,355	110,708	63,163
Intercompany receivables..................................	75	34	27
	181,528	**193,813**	**95,905**
Financial liabilities			
Trade and other payables...................................	42,022	79,139	54,059
Long-term debt - bonds........................	98,500	102,500	-
Long-term debt - loans...........................	37,500	-	-
	178,022	**181,639**	**54,059**

Fair values of financial assets and trade and other payables:

The Company considers the carrying value of all its financial assets and trade and other payables approximates their fair values due to the short-term maturity of these instruments.

Fair values of long-term debt:

The Company obtained quoted prices for its $100 million bond (see note 15), noting that the bond was trading at 98.5 percent of par and 102.5 percent of par at December 31, 2020 and 2019, respectively. Therefore, the fair value of the bond approximated $98.5 million and $102.5 million at December 31, 2020 and 2019, respectively. The Company considers the carrying value of its $37.5 million loan (see note 15) to approximate fair value at December 31, 2020. The fair values of the Company's long-term debt are estimated based upon observable inputs that are classified as Level 2 in the fair value hierarchy.

Capital risk management:

The Company manages its capital to ensure that the entity will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Company consists of cash, cash equivalents, debt, and equity attributable to equity holders of the Company. Equity comprises issued capital, reserves and accumulated earnings as disclosed in the statement of changes in equity.

Capital structure:

The Company's management reviews the capital structure on a regular basis and will make adjustments in light of changes in economic conditions. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

Financial risk management objectives:

The Company's management monitors and manages the financial risks relating to the operations of the Company. These financial risks include market risk (including commodity price, currency and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

During 2020, the Company purchased derivative financial instruments in order to manage its exposure to oil price risk. These instruments were not designated as hedging instruments. The resulting loss from these derivative instruments of $2.0 million is recognized as a realized loss in the accompanying statement of comprehensive income. As of December 31, 2020, the Company does not have any derivative financial instruments.

The Company currently has no currency risk or other hedges against financials risks as the benefit of entering into such agreements is not considered to be significant enough to outweigh the significant cost and administrative burden associated with such hedging contracts. The Company does not use derivative financial instruments for speculative purposes.

The risks are closely reviewed by management on a regular basis and steps are taken where necessary to ensure these risks are minimized.

Market risk:

The Company's activities expose it primarily to the financial risks of changes in oil prices.

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.

There have been no changes to the Company's exposure to other market risks or any changes to the manner in which the Company manages and measures the risk. The risks are monitored by management on a regular basis.

The Company conducts and manages its business predominantly in US dollars, the operating currency of the industry in which it operates.

A small portion of cash balances are held in Iraqi Dinar, the currency of the country in which the Company operates, to meet immediate operating and administrative expenses or to comply with local currency regulations. Additionally, some administrative costs are paid in British Pound. Fluctuations of these currencies does not pose a risk to the Company.

At December 31, 2020, a 10% weakening or strengthening of the US dollar against the other currencies in which the Company's monetary assets and monetary liabilities are denominated would not have a material effect on the Company's net current assets or profit before tax.

Interest rate risk management:

The Company's policy on interest rate management is agreed at the management level and is reviewed on an ongoing basis. The current policy is to maintain a certain amount of funds in the form of cash for short-term liabilities and have the rest on relatively short-term deposits, usually between one and three months, to maximize returns and accessibility.

Based on the exposure to the interest rates for cash and cash equivalents at the statement of financial position date, a 0.5% increase or decrease in interest rates would not have a material impact on the Company's profit for the year or the previous year. A rate of 0.5% is used as it represents management's assessment of a reasonable change in interest rates.

Credit risk management:

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. At December 31, 2020 and 2019, the maximum exposure to credit risk from a trade receivable outstanding from the KRG, the Company's sole customer, was $88.7 million and $102.6 million, respectively, representing receivables for oil sales and transportation. Non-payment of receivables by the KRG poses a material risk to the Company.

Liquidity risk management:

Ultimate responsibility for liquidity risk management rests with the management. It is the Company's policy to finance its business by means of internally generated funds and external capital. In common with many exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods. The Company seeks to raise further funding as and when required.

(19) 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 21). 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 statements of comprehensive income for the years 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.

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.

(20) 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 December 31, 2020 and 2019, and January 1, 2019, there was a net related party receivable outstanding of less than $0.1 million as intercompany receivables on the accompanying statements of financial positions.

Key management personnel compensation during 2020 and 2019 comprised the following:

In thousands of US dollar	**2020**	**2019**
Short-term employee benefits............	4,080	4,153
Post-employment benefits.................	96	91
	4,176	**4,244**

Compensation of the Company's key management personnel includes salaries, bonuses, hardships, and contributions to a retirement plan.

(21) 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.

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, $1.4 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.

The total balance owed to HKN for the unpaid November 2019 through February 2020 oil sales invoices, prior to offsetting the aforementioned liabilities owed to the KRG, 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. As of December 31, 2020, $67.5 million is still outstanding from these receivables.

The following table summarizes the changes in Receivables from Oil Sales, within Trade and Other Receivables in the accompanying statements of financial position, from December 31, 2019 to December 31, 2020:

In thousands of US dollar	
Receivables from oil sales	
Balance at December 31, 2019	99,435
Total contractor revenue from KRG purchases in 2020	158,468
KRG payments for oil sales during 2020	(151,275)
Liabilities owed to the KRG offset against receivables	(20,987)
Balance at December 31, 2020	**85,641**
Receivables from oil sales - current	57,741
Receivables from oil sales - non-current	27,900
Balance at December 31, 2020	**85,641**

On May 13, 2021, the Company received a letter from the KRG stating that, beginning with the March 2021 oil sales invoice, the KRG intends to begin remitting only 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 August 26, 2021, the date at which the financial statements were authorized to be issued, 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, April and May 2021 oil sales invoices in the amount of $9.0 million, for a total of $15.3 million in supplemental payments received. As of August 26, 2021, $48.0 million is still outstanding from these receivables.

As of August 26, 2021, $48.0 million 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 $50.4 million in total of receivables for this period ($39.1 million net to the Company) still outstanding from the KRG as of August 26, 2021.

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.

(22) 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 15). 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 statement of financial position at January 31, 2021.

As of August 26, 2021, the Company has received $160.7 million in payments during 2021 from the KRG for oil sales. Of this amount, $122.7 million was attributable to January through May 2021 oil sales ($95.1

million net to HKN), and $15.3 million were supplemental payments due to Dated Brent prices exceeding $50 per Bbl in the applicable months (see note 21).

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.

(23) Comparison of US GAAP to IFRS

HKN ENERGY LTD.

Statements of Financial Position

December 31, 2020 and 2019, and January 1, 2019

In thousands of US dollar

	December 31, 2020			December 31, 2019			January 1, 2019			
	US GAAP	***Transition Adjustments***	**IFRS**	**US GAAP**	***Transition Adjustments***	**IFRS**	**US GAAP**	***Transition Adjustments***	***Note***	**IFRS**
ASSETS										
Non-current assets										
Property and equipment - oil properties (net)	450,550	*(49,075)*	401,475	446,142	*(44,675)*	401,467	371,413	*(46,834)*	***2(a), 2(c)***	324,579
Other property and equipment (net)	3,674	*853*	4,527	3,402	*1,104*	4,506	2,220	*1,254*	***2(b)***	3,474
Trade and other receivables	27,900	-	27,900	-	-	-	-	-		-
Total non-current assets	**482,124**	***(48,222)***	**433,902**	**449,544**	***(43,571)***	**405,973**	**373,633**	***(45,580)***		**328,053**
Current assets										
Inventory	14,013	-	14,013	13,538	-	13,538	11,687	-		11,687
Prepaid expenses	358	-	358	1,215	*1 **	1,216	690	-		690
Trade and other receivables	63,455	-	63,455	110,708	-	110,708	63,163	-		63,163
Intercompany receivables	75	-	75	34	-	34	27	-		27
Cash and cash equivalents	83,309	-	83,309	83,071	-	83,071	32,715	-		32,715
Restricted cash	6,789	-	6,789							
Total current assets	**167,999**	**-**	**167,999**	**208,566**	***1***	**208,567**	**108,282**	**-**		**108,282**
TOTAL ASSETS	**650,123**	***(48,222)***	**601,901**	**658,110**	***(43,570)***	**614,540**	**481,915**	***(45,580)***		**436,335**
EQUITY AND LIABILITIES										
Equity										
Share capital	1	-	1	1	-	1	1	-		1
Additional paid-in capital	540,198	-	540,198	540,198	-	540,198	540,198	-		540,198
Accumulated deficit	(73,788)	*(51,776)*	(125,564)	(63,570)	*(50,970)*	(114,540)	(116,163)	*(57,748)*		(173,911)
Total equity	**466,411**	***(51,776)***	**414,635**	**476,629**	***(50,970)***	**425,659**	**424,036**	***(57,748)***		**366,288**
Non-current liabilities										
Trade and other payables	6,277	-	6,277	-	-	-	-	-		-
Debt (net of issuance costs and fees)	134,553	-	134,553	97,713	-	97,713	-	-		-
Lease liabilities	-	*686*	686	-	*4,702*	4,702	-	*7,400*	***2(b)***	7,400
Decommissioning provisions	6,316	-	6,316	4,629	-	4,629	3,820	-		3,820
Total non-current liabilities	**147,146**	***686***	**147,832**	**102,342**	***4,702***	**107,044**	**3,820**	***7,400***		**11,220**
Current liabilities										
Trade and other payables	36,566	*(821)*	35,745	79,139	-	79,139	54,059	-		54,059
Lease liabilities	-	*3,689*	3,689	-	*2,698*	2,698	-	*4,768*	***2(b)***	4,768
Total current liabilities	**36,566**	***2,868***	**39,434**	**79,139**	***2,698***	**81,837**	**54,059**	***4,768***		**58,827**
Total liabilities	**183,712**	***3,554***	**187,266**	**181,481**	***7,400***	**188,881**	**57,879**	***12,168***		**70,047**
TOTAL EQUITY AND LIABILITIES	**650,123**	***(48,222)***	**601,901**	**658,110**	***(43,570)***	**614,540**	**481,915**	***(45,580)***		**436,335**

** immaterial rounding difference*

HKN ENERGY LTD.

Statements of Comprehensive Income (Loss)

Years ended December 31, 2020 and 2019

In thousands of US dollar

	2020			2019			
	US GAAP	***Transition Adjustments***	**IFRS**	**US GAAP**	***Transition Adjustments***	***Note***	**IFRS**
Continuing operations							
Revenue	122,813	-	122,813	189,913	-		189,913
Cost of sales	98,878	*(795)*	98,083	110,271	*(9,903)*	***2(a), 2(b)***	100,368
Gross profit	**23,935**	***795***	**24,730**	**79,642**	***9,903***		**89,545**
General and administrative expenses	19,117	*2,167*	21,284	19,505	*3,771*	***2(a), 2(b)***	23,276
Profit from operating activities	**4,818**	***(1,372)***	**3,446**	**60,137**	***6,132***		**66,269**
Finance income	282	-	282	2,023	-		2,023
Finance expenses	(13,300)	*566*	(12,734)	(9,441)	*701*	***2(b), 2(c)***	(8,740)
Realized loss on derivatives	(1,953)	-	(1,953)	-	-		-
Other expense	(65)	-	(65)	(126)	*(55)*		(181)
Total comprehensive income (loss)	**(10,218)**	***(806)***	**(11,024)**	**52,593**	***6,778***		**59,371**