

HKN ENERGY III, LTD.

Consolidated Financial Statements

December 31, 2021

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

Board of Directors
HKN Energy III Ltd.:

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of HKN Energy III Ltd. (the Company), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the period from May 27, 2021 through December 31, 2021, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a



substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Exhibit 1 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Dallas, Texas
March 28, 2022

HKN ENERGY III, LTD.

Consolidated Statement of Financial Position

December 31, 2021

In thousands of US dollar

	Note	December 31, 2021
ASSETS		
Non-current assets		
Property and equipment - oil properties (net)	7	435,228
Other property and equipment (net)	8	4,017
Total non-current assets		439,245
Current assets		
Inventory	9	9,505
Prepaid expenses		622
Trade and other receivables	10	137,108
Intercompany receivables	20	122
Cash and cash equivalents	11	180,592
Restricted cash	11	25,163
Total current assets		353,112
TOTAL ASSETS		792,357
EQUITY AND LIABILITIES		
Equity		
Share capital		1
Additional paid-in capital		149,381
Retained earnings		46,446
Equity attributable to HKN Energy III, Ltd.		195,828
Noncontrolling interest		178,238
Total equity		374,066
Non-current liabilities		
Debt (net of issuance costs and fees)	14	241,544
Share acquisition liability	15	87,700
Lease liabilities	16	416
Decommissioning provisions	18	8,939
Total non-current liabilities		338,599
Current liabilities		
Trade and other payables	13	63,488
Debt	14	3,500
Share acquisition liability	15	12,435
Current lease liabilities	16	269
Total current liabilities		79,692
Total liabilities		418,291
TOTAL EQUITY AND LIABILITIES		792,357

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Consolidated Statement of Comprehensive Income

Period from May 27, 2021 to December 31, 2021

In thousands of US dollar

	Note	2021
Continuing operations		
Revenue	3	180,533
Operating expenses		19,256
Oil transportation expenses		3,755
Depletion, depreciation and amortization		40,604
Cost of sales	4	63,615
		116,918
Gross profit		
General and administrative expenses	5	11,336
		105,582
Profit from operating activities		
Finance income	6, 14	22
Finance expenses	6, 14	(16,170)
Finance expense - change in share acquisition liability	15	(11,306)
Other expense	6	(55)
		78,073
Total comprehensive income		
		78,073
Less: Comprehensive income attributable to noncontrolling interest		(31,627)
Total comprehensive income attributable to HKN Energy III, Ltd.		46,446

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Consolidated Cash Flow Statement

Period from May 27, 2021 to December 31, 2021

In thousands of US dollar

	Note	<u>2021</u>
OPERATING ACTIVITIES		
Profit before income tax		78,073
Adjustments to add non-cash items:		
Depreciation, depletion and amortization	7, 8, 17	40,604
Finance income and expense	6	16,148
Finance expense - change in share acquisition liability	15	11,306
Changes in working capital and provisions:		
Trade and other receivables	10	(23,584)
Intercompany receivables		378
Prepaid expenses		(20)
Trade and other payables	13	3,590
Cash generated from operations		<u>126,495</u>
Interest received		20
Interest paid	14	(13,213)
Net cash from operating activities		<u>113,302</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	7, 9	(57,060)
Purchase of HKN Holding Ltd. convertible preferred shares	1	(80,000)
Cash acquired in acquisition of controlling interest in HKN Energy, Ltd.		123,699
Net cash from investing activities		<u>(13,361)</u>
FINANCING ACTIVITIES		
Proceeds from debt net of fees	14	98,000
Debt issuance costs	14	(181)
Payments of lease liabilities	16	(1,744)
Shareholders' contributions	12	10,000
Shareholders' distributions	12	(261)
Net cash from financing activities		<u>105,814</u>
Net increase in cash and cash equivalents, and restricted cash		205,755
Cash and cash equivalents, and restricted cash at beginning of the period		-
Cash and cash equivalents, and restricted cash at end of the period	11	<u>205,755</u>
Of which restricted cash	11	25,163

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Consolidated Statement of Changes in Equity

Period from May 27, 2021 to December 31, 2021

In thousands of US dollar

	Note	Share capital	Additional paid-in capital	Retained earnings	Equity attributable to HKN Energy III, LTD.	Noncontrolling interest	Total equity
Total equity as of May 26, 2021		-	-	-	-	-	-
Profit for the period	12	-	-	46,446	46,446	31,627	78,073
Total comprehensive income		-	-	46,446	46,446	31,627	78,073
Capital contributions	12	-	10,000	-	10,000	-	10,000
Capital distributions	12	-	(177)	-	(177)	(84)	(261)
Contribution of HKN Holding, Ltd. shares	12	-	139,558	-	139,558	-	139,558
Noncontrolling interest in consolidated subsidiary, HKN Energy Ltd		-	-	-	-	146,695	146,695
Issuance of common shares		1	-	-	1	-	1
Total transactions with shareholders		1	149,381	-	149,382	146,611	295,993
Total equity as of December 31, 2021		1	149,381	46,446	195,828	178,238	374,066

At December 31, 2021, there were 200,000 common shares authorized at a \$0.01 par value, with 100,000 common shares issued and outstanding. As of December 31, 2021, the Company held no treasury shares.

See accompanying Notes to the Financial Statements

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(1) Formation and Nature of Operations

HKN Energy III, Ltd. (HKN III or the Company) is incorporated in the Cayman Islands and was formed on April 22, 2021. The registered office is at Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

HKN III was created as part of a restructuring of the ownership of HKN Energy Ltd. (HKN Energy). Prior to the reorganization, HKN Holding Ltd. was the owner of HKN Energy's Class A common shares, representing an approximately 68% ownership interest in HKN Energy. The principal activity of HKN Energy is the exploration, development, and production of oil and natural gas in the Kurdistan Region of Iraq ("Kurdistan").

Management has accounted for the reorganization as a combination of entities under common control, as the combining entities are ultimately controlled by the same party both before and after the combination.

Reorganization details and results

Through a series of transaction steps consummated on May 27, 2021, HKN III acquired 100% of the class A shares of HKN Energy, representing an approximately 68% (voting and economic) ownership in HKN Energy. The 32% noncontrolling interest in HKN Energy is owned, before and after the reorganization, by HKN Energy II, Ltd.

To effectuate such transactions, HKN III performed the following:

- Received a \$10 million capital contribution from parent company HKN Holding II (UK);
- Issued \$100.0 million in bonds (see further discussion in note 14);
- Acquired the noncontrolling interest previously held in HKN Holding Ltd. by Kerogen Capital No. 7 Limited ("Kerogen") for \$80.0 million in cash, deferred payments of \$95.0 million, and contingent deferred payments of up to \$25.0 million (see further discussion in note 15);
- Received 100% of the equity ownership in HKN Holding Ltd. from its parent company, HKN Holding (UK) II, Ltd.

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

A summarized condensed consolidating schedule for the opening balance sheet of HKN III, reflective of the reorganization steps detailed above, is presented below for reference. The HKN Energy balances represent the book balances transferred in accordance with accounting for common control transactions.

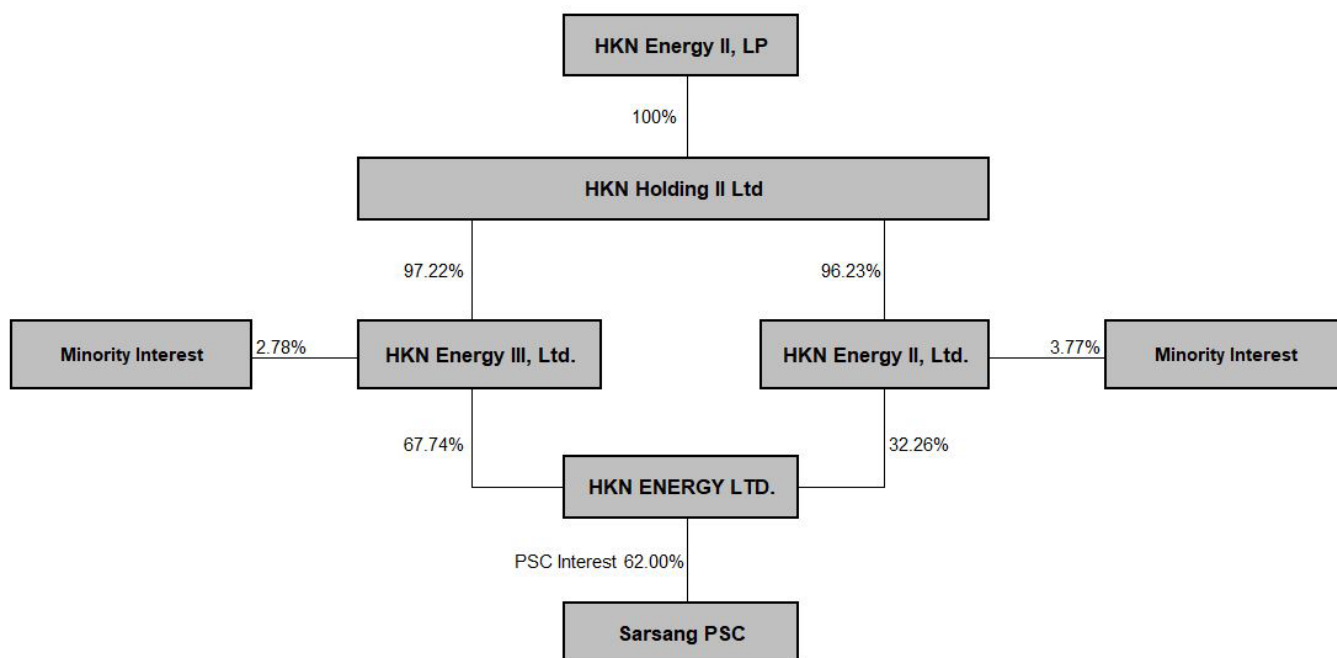
HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

<i>In thousands of US dollar</i>	HKN Energy III, Ltd. Unconsolidated May 27, 2021	HKN Energy, Ltd. May 27, 2021	Eliminations May 27, 2021	HKN Energy III, Ltd. Consolidated May 27, 2021
Total property and equipment (net).....	-	409,551	-	409,551
Investment in equity affiliate.....	308,123	-	(308,123)	-
Trade and other receivables.....	-	117,233	-	117,233
Total cash and restricted cash.....	28,000	123,434	-	151,434
Other current assets.....	265	14,999	-	15,264
Total assets	336,388	665,217	(308,123)	693,482
Equity attributable to HKN Energy III, Ltd....	149,560	454,817	(454,817)	149,560
Noncontrolling interest.....	-	-	146,694	146,694
Debt (net of issuance costs and fees).....	98,000	146,379	-	244,379
Share acquisition liability.....	88,828	-	-	88,828
Other non-current liabilities.....	-	6,998	-	6,998
Current liabilities.....	-	57,023	-	57,023
Total equity and liabilities	336,388	665,217	(308,123)	693,482

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



HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

HKN Energy Nature of Operations

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% of the production sharing interest per the PSC 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 period ended December 31, 2021 was 38.9%.

The Company faces specific risks related to HKN Energy 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.

- In 2012, the then Federal Minister of Oil (MoO) filed suit against the Kurdistan Regional Government (KRG) seeking a judgement ordering the KRG to turn over oil produced in the Kurdistan Region to the Federal MoO and further alleged that the KRG's administration of its oil sector was violative of the Iraqi Constitution. On February 15, 2022, the Federal Supreme Court of Iraq issued a ruling that the Kurdistan Oil and Gas Law is unconstitutional, instructed the KRG to hand over all oil production from areas located in Kurdistan to the Federal Government of Iraq and that the Federal Government of Iraq has the right to pursue the invalidation of the KRG's production sharing contracts. HKN Energy was not a party to the litigation, and it is unclear how the KRG and the Federal Government of Iraq will take action on the ruling. HKN Energy has not experienced any change in its operations as a result of this ruling and has been instructed to continue its operations by the KRG. HKN Energy has received payments for oil sales from the KRG and extended its sales contract with the KRG subsequent to the Federal Supreme Court of Iraq ruling. HKN Energy will continue to monitor the situation. HKN Energy cannot currently estimate the potential implications, if any, of this ruling but it could materially impact future operations and financial results.
- There has been a historical precedent of delinquent payments made to oil and gas producers in the region from the KRG. See further discussion on collectability of these receivables in note 2(e)(ii) and note 21.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(2) Summary of Significant Accounting Policies

(a) *Statement of Compliance*

The consolidated financial statements for the period ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board (“IASB”). The consolidated financial statements were authorized for issuance by management on March 28, 2022.

(b) *Basis of Accounting*

The consolidated 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.

The Company consolidates the financial results of HKN Energy as a result of its controlling interest in HKN Energy.

(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 has unrestricted cash balances totaling \$180.6 million at December 31, 2021 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. 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).

(e) *Use of Judgments and Estimates*

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

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

(i) *Judgments*

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

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

Revenue Recognition

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

See further information regarding revenue recognition in note 2(g).

(ii) Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties at December 31, 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following areas:

Measurement and recognition of non-current oil sales receivables

In March 2020, the KRG informed HKN Energy and other IOCs in Kurdistan that payments for sales from November 2019 to February 2020 would be deferred. See note 21 for further discussion.

While the Company continues to expect to recover the full outstanding balance from the KRG, the Company determined it was appropriate to evaluate on a quarterly basis the need to present a portion of the outstanding receivables from oil sales as non-current. Due to uncertainty about the timing of supplemental payments (see note 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. As of December 31, 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 (see note 2(j)), management performs an impairment indicator evaluation at the end of each reporting period. If external or internal indicators of impairment are identified, management performs an impairment review of the Company's oil properties. 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, 2021 was its ownership in HKN Energy. HKN Energy's sole cash generating unit at December 31, 2021 was the Sarsang Block with a carrying value of \$435.2 million. The Company performed an impairment indicator evaluation considering the impact of COVID-19, oil price recovery in 2021, 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.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(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.

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. 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 2(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 year ended December 31, 2021, 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.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(h) Property and Equipment – Oil Properties

The Company follows the successful efforts method of accounting for exploration and evaluation (“E&E”) costs. HKN Energy transferred all E&E costs associated with successful discovery of commercial reserves to Property and Equipment – Oil Properties upon entering the development phase of the Sarsang PSC in 2014. As of December 31, 2021 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 2021, as the Company was in the development phase of the Sarsang PSC.

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 consolidated statement of financial position represents the cost less accumulated depreciation charges and any accumulated impairment losses.

The estimated useful lives are as follows:

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

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 (HKN Energy's ownership of the Sarsang block), therefore has one asset grouping for impairment purposes.

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 14).

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(ii) Trade and other receivables

The majority of trade and other receivables are due from the 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 consolidated statement 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

HKN Energy from time to time 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.

The Company did not have any derivatives for the period ending December 31, 2021.

(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.

(vii) Kerogen share acquisition liability

The Kerogen share acquisition liability represents a financial liability measured at amortized cost. Finance expense is calculated based upon the effective interest method. The amortized

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

cost of the financial liability is adjusted in the period of change to reflect changes in the timing or amount of estimated cash flows, with a corresponding recognition of income or expense in the consolidated statement of comprehensive income.

(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, 2021, 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 in Depletion, Depreciation and Amortization within Cost of Sales in the consolidated 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.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(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, 2021, the Company's accompanying consolidated statement of financial position includes RoU assets, net of accumulated depreciation, of \$9.5 million (\$10.5 million assets net of \$1.5 million depreciation included in oil properties and \$1.2 million assets net of \$0.7 million depreciation included in other property and equipment) and lease liabilities of \$0.7 million (\$0.3 million current and \$0.4 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 III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

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

HKN Energy and its co-venturer have certain commitments defined by the PSC that are contingent upon the timing and length of the exploration, development, and production periods 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, and \$10 million was offset against oil sales receivables from the KRG in 2020 (see note 21).

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 Applicable or Not Yet Effective

The following new and amended standards are effective for annual periods beginning on 1 January 2021 and earlier application is permitted; however, the Company has not adopted the new or amended standards in preparing these financial statements as they are not applicable for 2021.

- 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)

The following new and amended standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements, as the Company does not expect them to have a significant impact on the Company's financial statements or does not expect them to be applicable to the Company when they become effective.

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- 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).

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(3) Revenue

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Revenue	
Oil sales.....	180,533
	<u>180,533</u>

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

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Cost of Sales	
Operating expenses.....	(19,256)
Depletion, depreciation and amortization.....	(40,604)
Transportation costs.....	(3,755)
	<u>(63,615)</u>

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 2(h)), straight-line depreciation of other property and equipment (see note 2(i)), accretion expense on decommissioning provision (see note 2(n)), and depreciation of RoU assets recognized under IFRS 16 *Leases* (see note 2(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.

(5) General and Administrative Expenses

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
General and administrative expenses	
Personnel costs.....	(5,759)
Legal and consulting.....	(2,101)
Office and apartment rent, security and supplies.....	(2,099)
Travel costs.....	(389)
Other general and administrative expenses.....	(988)
	<u>(11,336)</u>

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

Personnel costs of \$5.8 million for the period from May 27, 2021 to December 31, 2021 include salaries, bonuses, employer's payroll tax expenses, deferred compensation and other miscellaneous costs.

(6) Finance Income and Expense / Other Expenses

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Finance income	
Interest income on cash held in money market investment account.....	22
Finance expense	
Interest expense from debt.....	(15,751)
Amortization of debt issuance costs.....	(846)
Interest expense recognized on lease liabilities.....	(23)
Transfer to capitalized interest.....	450
Change in share acquisition liability.....	(11,306)
Other expenses	
Other expense.....	(55)
	<u>(27,509)</u>

Other expenses of less than \$0.1 million include bank fees, gains on foreign currency translations, and administration fees charged on supplier rebills.

(7) Property and Equipment – Oil Properties

<i>In thousands of US dollar</i>	December 31, 2021
Oil & gas assets	
Balance at May 27.....	589,893
Additions.....	67,071
RoU asset additions/(remeasurement).....	(504)
Capitalized interest.....	450
Decommissioning provision additions.....	2,355
Balance at period end.....	659,265
Accumulated depletion and impairment	
Balance at May 27.....	(184,464)
Depletion charge.....	(39,272)
Depreciation of RoU assets.....	(301)
Balance at period end.....	(224,037)
Carrying value - oil & gas assets	
Balance at May 27.....	405,429
Balance at period end.....	435,228

The carrying value of oil and gas assets at December 31, 2021 is comprised of property, plant and equipment relating to the Sarsang Block and has a carrying value of \$435.2 million.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

Oil and gas properties primarily include costs for the drilling, stimulation and completion of wells and the equipment and construction of production facilities.

As of December 31, 2021, the Company's oil and gas properties balance included \$10.5 million of RoU assets, which are related to oil production facility leases. The RoU assets are depreciated straight-line over the lifetime of their underlying asset or lease contract.

As of December 31, 2021, \$4.6 million of interest expense was capitalized within oil and gas properties in relation to debt incurred to finance the construction of PP&E assets (see discussion of accounting policy in note 2(h)).

The depletion of oil properties and depreciation of RoU assets have been included Depletion, Depreciation and Amortization within Cost of Sales on the accompanying consolidated statement of comprehensive income (see note 4).

For details of the key assumptions and judgments underlying the impairment assessment, refer to note 2(e) – Use of Judgments and Estimates.

(8) Other Property and Equipment

<i>In thousands of US dollar</i>	December 31, 2021
Acquisition cost	
Balance at May 27.....	9,813
Additions.....	759
Balance at period end.....	10,572
Accumulated depreciation and impairment	
Balance at May 27.....	(5,691)
Depreciation charge.....	(714)
Depreciation of RoU Assets.....	(150)
Balance at period end.....	(6,555)
Carrying value	
Balance at May 27.....	4,122
Balance at period end.....	4,017

Additions to Other Property and Equipment include assets such as containers, housing, computers, and other equipment not directly associated with the exploration and development of the Sarsang block.

(9) Inventory

<i>In thousands of US dollar</i>	December 31, 2021
Inventory	
Warehouse stocks and materials.....	9,505
	9,505

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

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

are carried at recoverable cost. As of December 31, 2021, \$9.5 million of these assets were included as inventory on the accompanying consolidated statement of financial position. Additionally, \$1.0 million of additions to inventory were included in purchases of property and equipment on the accompanying consolidated statement of cash flows for the period ended December 31, 2021.

(10) Trade and Other Receivables

<i>In thousands of US dollar</i>	December 31, 2021
Trade and other receivables - current	
Receivables from oil sales - current.....	132,937
Receivables from transportation costs.....	4,161
Receivables from co-venturer.....	-
Other receivables.....	10
	<u>137,108</u>

Receivables from oil sales: The majority of accounts receivable are from oil sales to the KRG as purchaser of the Company's oil. The recorded amount of \$132.9 million at December 31, 2021 is owed to the Company and its co-venturer. A corresponding payable of \$29.9 million at December 31, 2021 is recorded in revenues payable on the accompanying consolidated statement of financial position for the portion of this receivable due to the Company's co-venturer (see note 13). See note 21 for further discussion.

As discussed in note 2(e)(ii), the Company evaluates on a quarterly basis the need to present a portion of the outstanding receivables from oil sales as non-current. As of December 31, 2021, management determined that based on the KRG's consistent payment of oil sales invoices during 2021, the full outstanding receivables balance should be presented as current and is expected to be collected in 2022.

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, 2021 included \$4.2 million for KRG transportation cost paid by the Company and its co-venturer.

Receivables from co-venturer: The Company's co-venturer is billed monthly for their portion of forecasted capital spending in advance, with amounts due from or owed to the co-venturer from the previous month netted against the current funding request. At December 31, 2021, the amount of cash advances paid by the Company's co-venturer exceeded the amount of receivables due from the co-venturer.

Other receivables: Other receivables at December 31, 2021 consisted primarily of interest receivable on cash invested in money market accounts.

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

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(11) Cash and Cash Equivalents

<i>In thousands of US dollar</i>	December 31, 2021
Cash and cash equivalents	
Cash in bank accounts and on hand.....	3,621
Cash in money market investment account.....	176,971
	180,592
 Restricted cash	
Restricted cash.....	25,163
	25,163

See note 14 for information on the restricted cash balance.

(12) Shareholders' Equity

(a) Share transactions

As discussed in note 1, on May 27, 2021, the Company's parent entity, HKN Holding II (UK) Ltd., contributed its 100% ownership in HKN Holding Ltd. to the Company in exchange for 100,000 common shares of HKN III. Additionally, the Company received a \$10.0 million cash contribution from HKN Holding II (UK) Ltd. as an initial equity investment. During the period from May 27, 2021 to December 31, 2021, there was a \$0.3 million cash distribution from HKN Energy to its shareholders.

(b) Noncontrolling interest

The Company has a noncontrolling interest representing the equity of HKN Energy II Ltd.'s ownership interest in the Class B shares of HKN Energy (approximately 32% ownership of HKN Energy). HKN III and HKN Energy II Ltd. have the same parent entity, HKN Holding II (UK) Ltd. The net profit attributable to the noncontrolling interest represents the HKN Energy net profit for the period multiplied by HKN Energy II Ltd.'s approximately 32% ownership interest of HKN Energy. For the period from May 27, 2021 to December 31, 2021, net profit attributable to the noncontrolling interest was \$31.6 million.

(13) Trade and Other Payables

<i>In thousands of US dollar</i>	December 31, 2021
Trade and other payables - current	
Accounts payable.....	20,350
Revenues payable to co-venturer - current.....	29,911
Capital spending advances to co-venturer.....	532
Transportation payable.....	2,446
Accrued expenses	
Compensation payable.....	4,828
Accrued interest.....	5,050
PSC obligations.....	57
Other accrued expenses.....	314
	63,488

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

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 19 for explanation of PSC obligations. Other accrued expenses primarily include payables to related affiliates for general and administrative services (see note 20).

(14) Debt and Finance Income/Expenses

On May 26, 2021, the Company closed on a four-year unsecured bond of \$100 million with semi-annual interest payments at a coupon rate of 12%. The bond matures on May 26, 2025. The first interest payment was made on November 26, 2021. In accordance with the terms of the bond, the net cash proceeds from the bond were used to finance the Company's \$80 million payment for the Kerogen purchase (see note 15). Additionally, per the bond terms the Company used the net cash proceeds to fund an account with the Debt Service Reserve Requirement, which equals 24 months of interest due on the bond. The Company is to use the funds in this account to pay interest on the bond as it becomes due. Therefore, the Company had \$18.0 million in a debt service reserve for the bond included as restricted cash on the accompanying consolidated statement of financial position at December 31, 2021. Per the bond's financial covenants, if the Company makes any distributions, it is required to maintain cash and cash equivalents (not including the debt service reserve) on an unconsolidated basis in an aggregate amount of no less than the minimum liquidity amount as defined by the bond terms. As of December 31, 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 consolidated financial statements are authorized to be issued.

On May 5, 2020, HKN Energy closed on a nine-year loan of \$49 million from the United States International Development Finance Corporation in order to finance the development of a 25,000 barrel per day production facility on the Sarsang Block. The loan matures on May 15, 2029. HKN Energy received the first installment payout of \$37.5 million on May 27, 2020. The first installment bears interest at a rate of 6.86% (5.75% stated interest rate plus a 1.11% rate necessary to fund the loan through the marketing of the lender's certificates of participation). HKN Energy received the second and final installment payout of \$11.5 million on January 27, 2021. The second installment bears interest at a rate of 6.55% (5.75% stated interest rate plus a 0.80% rate necessary to fund the loan through the marketing of the lender's certificates of participation).

Per the loan terms, HKN Energy must establish an account and keep it funded up to the Debt Service Reserve Requirement, which equals amounts due on the loan for the immediately succeeding six months. Therefore, HKN Energy had \$1.7 million in a debt service reserve for the loan included as restricted cash on the accompanying consolidated statement of financial position at December 31, 2021. Per the loan's financial covenants, HKN Energy must maintain a Reserve Tail Ratio of no less than 20%, a ratio of Current Assets to Current Liabilities of 1:1, and funds or assets on deposit with a market value at least equal to the Debt Service Reserve Requirement (see discussion above). Upon completion of the production facility, HKN Energy must maintain a ratio of Net Cash Flow to Debt Service of not less than 1.4 to 1 for both the most recently completed and the next succeeding four consecutive full fiscal quarters. As of December 31, 2021, HKN Energy was in compliance with all required financial covenants. HKN Energy expects to remain in compliance with all of the loan's required financial covenants for a period of one year from the date the consolidated financial statements are authorized to be issued.

On March 6, 2019, HKN Energy closed on a five-year unsecured bond of \$100 million with semi-annual interest payments at a coupon rate of 11%. The bond matures on March 6, 2024. Per the bond terms, the bond should be on a pari passu basis with any additional debt HKN Energy secures. Therefore, as a result of HKN Energy securing the loan discussed above, HKN Energy had \$5.5 million (six months of interest) in

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

a debt service reserve for the bond included as restricted cash on the accompanying consolidated statement of financial position at December 31, 2021. Per the bond's financial covenants, HKN Energy must maintain a minimum Equity Ratio of 40%, and a minimum liquidity of 1.5 times the estimated next 12 months interest based on the outstanding debt as of the calculation date. As of December 31, 2021, HKN Energy was in compliance with all required financial covenants. HKN Energy expects to remain in compliance with all of the bond's required financial covenants for a period of one year from the date the consolidated financial statements are authorized to be issued.

At December 31, 2021, total current and non-current debt, net of debt issuance costs and fees, consisted of the following:

<i>In thousands of US dollar</i>	At December 31, 2021		
	HKN Energy	HKN III	Total
Debt, net of issuance costs and fees - current			
Debt payable - current.....	3,500	-	3,500
	3,500	-	3,500
Debt, net of issuance costs and fees - non-current			
Debt payable.....	145,500	100,000	245,500
Debt issuance fees.....	(2,941)	(2,000)	(4,941)
Debt issuance costs.....	(1,236)	(181)	(1,417)
Amortization of debt issuance costs and fees.....	2,039	363	2,402
	143,362	98,182	241,544

Current debt, net of issuance costs and fees, as of December 31, 2021 of \$3.5 million represents the portion of principal due in 2022 on HKN Energy's \$49 million DFC loan. The increase in debt (net of issuance costs and fees) of \$98.2 million during 2021 consists of \$98 million of net cash flows from debt proceeds, the payment of \$0.2 million 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 debt instruments by year they are due:

<i>In thousands of US dollar</i>	
2022	3,500
2023	7,000
2024	107,000
2025	107,000
2026	7,000
Thereafter	17,500
	249,000

At December 31, 2021, accrued interest was \$5.0 million, included within Trade and Other Payables on the accompanying consolidated statement of financial position (see note 13). For the period ended December 31, 2021, finance income and finance expense consisted of the following:

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Finance income	
Interest income from money market account.....	20
Change in interest receivable.....	2
	22
Finance expense	
Cash payments for interest.....	(13,213)
Change in interest accrual.....	(2,538)
Amortization of debt issuance costs and fees.....	(846)
Interest expense on leases.....	(23)
Transfer to capitalized interest.....	450
	(16,170)
	(11,306)
Finance expense - change in share acquisition liability.....	(11,306)

As noted in the table above, for the period ended December 31, 2021, HKN Energy earned less than \$0.1 million in interest income on cash held in a Bank of America money market account. Interest receivable on the account at December 31, 2021 was less than \$0.1 million and is included on the accompanying consolidated statement of financial position within Trade and Other Receivables (see note 11).

(15) Kerogen Share Acquisition Liability

As discussed in note 1, the Company purchased Kerogen's interest in HKN Holding Ltd. on May 27, 2021. The consideration for the sale consisted of a cash consideration of \$80.0 million, as well as a \$95.0 million Earn-Out Consideration and a \$25.0 million Oil Price Contingent Earn-Out Consideration.

(a) Earn-Out Consideration

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

(b) Oil Price Contingent Earn-Out Consideration

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

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

1. Less than \$55 per barrel, then no Oil Price Contingent Earn-Out Consideration shall accrue during that quarter;
2. Greater than or equal to \$65 per barrel, then \$5.0 million of Oil Price Contingent Earn-Out Consideration shall accrue during that quarter; or
3. Between \$55 per barrel and \$65 per barrel, then the Oil Price Contingent Earn-Out Consideration to accrue for that quarter will be calculated as: $\$5.0 \text{ million} \times ((\text{average Dated Brent Price} - \$55) / (\$65 - \$55))$.

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

The Company accrued \$88.8 million related to both components of the Kerogen share acquisition liability as of May 27, 2021. As of December 31, 2021, the Company has accrued \$100.1 million related to the Kerogen share acquisition liability. The Company has accrued \$12.4 million as a current share acquisition liability and \$87.7 million as a non-current share acquisition liability on the accompanying consolidated statement of financial position. The change in the Kerogen share acquisition liability of \$11.3 million has been recorded as a finance expense in the consolidated statement of comprehensive income.

As of December 31, 2021, the Company forecasts the share acquisition liability to be paid out to Kerogen through 2024, however the timing of payment is subject to future changes based upon the amount of revenue and timing of cash receipts from the KRG.

(16) Lease Liabilities

As of December 31, 2021, current lease liabilities of \$0.3 million and non-current lease liabilities of \$0.4 million are included on the accompanying consolidated statement of financial position. These lease liabilities are related to the fixed rent component of office space leases.

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Lease liabilities	
Balance at May 27.....	2,910
Remeasurement of lease liability.....	(504)
Lease payments.....	(1,744)
Interest expense.....	23
Balance at December 31.....	<u>685</u>
Current portion (within one year).....	269
Non-current portion (two to five years).....	416
	<u>685</u>

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

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

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 for the period ended December 31, 2021 and were recognized within general and administrative expenses.

<i>In thousands of US dollar</i>	December 31, 2021
Lease maturity analysis	
Year 1.....	-
Year 2.....	320
Year 3.....	365
Year 4.....	-
Year 5.....	-
	<u>685</u>
Amounts payable under leases	
Within one year.....	295
Two to five years.....	434
	<u>729</u>
Less future interest charges.....	(44)
Less future remeasurement of lease liability.....	-
Net present value of lease obligations	<u><u>685</u></u>

(17) Decommissioning Provisions

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Decommissioning provisions	
Balance at May 27.....	6,417
Additions.....	2,355
Accretion expense.....	167
Balance at period end.....	<u><u>8,939</u></u>

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.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

(18) Financial Instruments – Fair Value and Risk Management

<i>In thousands of US dollar</i>	December 31, 2021
Financial assets	
Cash and cash equivalents.....	180,592
Restricted cash.....	25,163
Trade and other receivables.....	137,108
Intercompany receivables.....	122
	<u>342,985</u>
Financial liabilities	
Trade and other payables.....	63,488
Current and non-current share acquisition liability....	100,135
Current and non-current debt - bonds.....	206,998
Current and non-current debt - loans.....	49,000
	<u>419,621</u>

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 debt:

The Company obtained quoted prices for the HKN Energy \$100 million bond and HKN III \$100 million bond (see note 15), noting that the bonds were trading at 103.576 percent of par and 103.422 percent of par, respectively, at December 31, 2021. Therefore, the fair value of the HKN Energy and HKN III bonds approximated \$103.6 million and \$103.4 million, respectively, at December 31, 2021. The Company considers the carrying value of the HKN Energy \$49.0 million DFC loan (see note 15) to approximate fair value at December 31, 2021. The fair values of the Company's 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.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

The Company currently has no currency risk or other hedges against financial 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 2021, the average price of oil was approximately \$70.91 per Bbl, based on published Dated Brent Crude Oil daily settlement prices. During 2020, the average price of oil was approximately \$41.84 per Bbl. A future 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 significant risk to the Company.

At December 31, 2021, 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:

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

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, 2021, the maximum exposure to credit risk from a trade receivable outstanding from the KRG, the Company's sole customer, was \$137.1 million, 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.

HKN Energy and its co-venturer have certain commitments defined by the PSC that are contingent upon the timing and length of the exploration, development, and production periods. These include Contractor obligations of \$0.3 million due in each year (unpaid amounts are accrued as PSC obligations within trade and other payables) and total aggregate payments of up to \$37.5 million due upon meeting four defined thresholds during the development phase of the PSC, of which \$2.5 million and \$5.0 million was paid by the Contractor to the KRG in 2014 and 2018, respectively. The third defined production threshold of 25 million barrels of crude oil was met in April 2020, and the required \$10.0 million was offset against the outstanding oil sales receivables from the KRG (see further discussion in note 21). HKN Energy's working interest share of the \$2.5 million and \$5.0 million production bonuses paid, as well as the \$10.0 million production bonus offset against receivables, were expensed within operating expenses for the periods during which the payments were made. The fourth defined production threshold will be reached when production from the contract area reaches a cumulative amount of 50 million barrels of crude oil and \$20.0 million will be owed by the Contractor to the KRG. HKN Energy anticipates reaching the fourth production threshold in 2022. The production bonuses represent an outflow of HKN Energy's resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with IFRIC 21 *Levies* which requires that the obligation be recognized on the date at which the production milestone is reached.

In addition, 20% of HKN Energy's profit petroleum is committed to a capacity building fund as set forth in the PSC. This value is retained by the KRG as a portion of its entitled production and is not included in HKN Energy revenues or expenses. HKN Energy plans to settle all obligations through either cash payments to the KRG or through satisfying these commitments in kind, through programs approved by the KRG.

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

(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 the period ended December 31, 2021, the Company paid general and administrative expenses of \$0.9 million to related entities for management and administrative services provided to the Company, and rent. At December 31, 2021, there was a net related

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

party receivable outstanding of \$0.1 million as intercompany receivables on the accompanying consolidated statement of financial position.

Key management personnel compensation during the period ended December 31, 2021 comprised the following:

<i>In thousands of US dollar</i>	Period from May 27, 2021 to December 31, 2021
Short-term employee benefits.....	1,747
Post-employment benefits.....	28
	<u>1,775</u>

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 HKN Energy detailing how it would pay the November 2019 through February 2020 oil sales receivables amounting to \$86.1 million (\$66.7 million net to HKN Energy). Under the terms of this plan, certain outstanding liabilities owed by HKN Energy to the KRG would be offset against oil sales receivables. HKN Energy is also entitled to supplemental payments on monthly invoices beginning in January 2021 when Dated Brent prices exceed \$50 per Bbl. HKN Energy receives 50% of the excess of the average monthly Dated Brent oil price above \$50 multiplied by monthly export volumes as a supplemental payment. The supplemental payments are to be applied against the November 2019 through February 2020 oil sales receivables.

The total gross amounts of liabilities offset against these receivables as of December 31, 2021 were \$25.4 million, which consisted of \$13.7 million of Oilfield Police Force costs, \$1.7 million of PSC obligations (\$1.5 million Environmental Fund payments and \$0.2 million of Production Rental payments), and \$10.0 million of Production Bonuses. Security costs were accrued within operating expenses or capital expenditures, PSC obligations were accrued within capital expenditures, and Production Bonuses were accrued within operating expenses.

On May 13, 2021, HKN Energy received a letter from the KRG stating that, beginning with the March 2021 oil sales invoice, the KRG intended to remit 20% of the excess of the average monthly Dated Brent oil price above \$50 multiplied by monthly export volumes as a supplemental payment, rather than the original 50%. As of March 28, 2022, the date at which the financial statements were authorized to be issued, HKN Energy has received supplemental payments calculated at 50% for the January and February 2021 oil sales invoices in the amount of \$6.3 million, and supplemental payments calculated at 20% for the March through November 2021 oil sales invoices in the amount of \$38.6 million, for a total of \$44.9 million received in supplemental payments.

As of March 28, 2022, \$15.7 million (\$12.2 million net to HKN Energy) is still outstanding from the November 2019 through February 2020 oil sales receivables after applying the aforementioned supplemental payments and offsetting liabilities owed to the KRG by HKN Energy. Additionally, HKN Energy is owed \$2.4 million of transportation costs by the KRG in relation to November 2019 to February 2020 oil sales, amounting to \$18.1 million in total of receivables for this period (\$14.1 million net to HKN Energy) still outstanding from the KRG as of March 28, 2022.

HKN ENERGY III, LTD.

Notes to Consolidated Financial Statements

December 31, 2021

The following table summarizes the changes in Receivables from Oil Sales of HKN Energy, within Trade and Other Receivables in the accompanying consolidated statement of financial position, from May 27, 2021 to December 31, 2021:

In thousands of US dollar

Receivables from oil sales	
Balance at May 27, 2021.....	113,295
Total contractor revenue from KRG purchases during the period.....	228,117
KRG payments for oil sales during the period.....	(178,479)
KRG supplemental payments for oil sales during the period	(26,285)
Liabilities owed to the KRG offset against receivables.....	<u>(3,711)</u>
Balance at December 31, 2021.....	<u>132,937</u>

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

(22) Subsequent Events

As of March 28, 2022, HKN Energy has received \$84.9 million in payments during 2022 from the KRG for oil sales and transportation. Of this amount, \$72.5 million was attributable to October and November 2021 oil sales and transportation (\$56.2 million net to HKN Energy), and \$12.4 million were supplemental payments due to Dated Brent prices exceeding \$50 per Bbl in the applicable months (see note 21).

On February 15, 2022, the Federal Supreme Court of Iraq issued a ruling that the Kurdistan Oil and Gas Law is unconstitutional, instructed the KRG to hand over all oil production from areas located in Kurdistan to the Federal Government of Iraq and that the Federal Government of Iraq has the right to pursue the invalidation of the KRG's production sharing contracts. HKN Energy was not a party to the litigation, and it is unclear how the KRG and the Federal Government of Iraq will take action on the ruling. HKN Energy has not experienced any change in its operations as a result of this ruling and has been instructed to continue its operations by the KRG. HKN Energy has received payments for oil sales from the KRG and extended its sales contract with the KRG subsequent to the Federal Supreme Court of Iraq ruling. HKN Energy will continue to monitor the situation. HKN Energy cannot currently estimate the potential implications, if any, of this ruling but it could materially impact future operations and financial results.

The Company has evaluated subsequent events from the consolidated statement of financial position date through March 28, 2022, the date at which the consolidated financial statements were authorized to be issued, and determined that there are no other items to disclose.

EXHIBIT 1

HKN ENERGY III, LTD.

Consolidated Statement of Financial Position

December 31, 2021

In thousands of US dollar

	HKN Energy III, Ltd. Unconsolidated	HKN Energy, Ltd.	Eliminations	HKN Energy III, Ltd. Consolidated
	December 31, 2021	December 31, 2021	December 31, 2021	December 31, 2021
ASSETS				
Non-current assets				
Property and equipment - oil properties (net)	-	435,228	-	435,228
Other property and equipment (net)	-	4,017	-	4,017
Investment in equity affiliate	374,378	-	(374,378)	-
Total non-current assets	374,378	439,245	(374,378)	439,245
Current assets				
Inventory	-	9,505	-	9,505
Prepaid expenses	7	615	-	622
Trade and other receivables	-	137,108	-	137,108
Intercompany receivables	-	122	-	122
Cash and cash equivalents	2,964	177,628	-	180,592
Restricted cash	18,000	7,163	-	25,163
Total current assets	20,971	332,141	-	353,112
TOTAL ASSETS	395,349	771,386	(374,378)	792,357
EQUITY AND LIABILITIES				
Equity				
Share capital	1	1	(1)	1
Additional paid-in capital	149,381	539,937	(539,937)	149,381
Retained earnings (accumulated deficit)	46,446	12,678	(12,678)	46,446
Equity attributable to HKN Energy III, Ltd.	195,828	552,616	(552,616)	195,828
Noncontrolling interest	-	-	178,238	178,238
Total equity	195,828	552,616	(374,378)	374,066
Non-current liabilities				
Debt (net of issuance costs and fees)	98,182	143,362	-	241,544
Share acquisition liability	87,700	-	-	87,700
Lease liabilities	-	416	-	416
Decommissioning provisions	-	8,939	-	8,939
Total non-current liabilities	185,882	152,717	-	338,599
Current liabilities				
Trade and other payables	1,204	62,284	-	63,488
Debt	-	3,500	-	3,500
Share acquisition liability	12,435	-	-	12,435
Current lease liabilities	-	269	-	269
Total current liabilities	13,639	66,053	-	79,692
Total liabilities	199,521	218,770	-	418,291
TOTAL EQUITY AND LIABILITIES	395,349	771,386	(374,378)	792,357

EXHIBIT 1

HKN ENERGY III, LTD.

Consolidated Statement of Comprehensive Income

Period from May 27, 2021 to December 31, 2021

In thousands of US dollar

	HKN Energy III, Ltd. Unconsolidated	HKN Energy, Ltd.	Eliminations	HKN Energy III, Ltd. Consolidated
	2021	2021	2021	2021
Continuing operations				
Revenue	-	180,533	-	180,533
Operating expenses	-	19,256	-	19,256
Oil transportation expenses	-	3,755	-	3,755
Depletion, depreciation and amortization	-	40,604	-	40,604
Cost of sales	-	63,615	-	63,615
Gross profit	-	116,918	-	116,918
General and administrative expenses	1,181	10,155	-	11,336
Profit of equity affiliate	66,431	-	(66,431)	-
Profit from operating activities	65,250	106,763	(66,431)	105,582
Finance income	-	22	-	22
Finance expenses	(7,497)	(8,673)	-	(16,170)
Finance expense - change in share acquisition liability	(11,306)	-	-	(11,306)
Other expense	(1)	(54)	-	(55)
Total comprehensive income	46,446	98,058	(66,431)	78,073
Less: Comprehensive income attributable to noncontrolling interest	-	-	(31,627)	(31,627)
Total comprehensive income attributable to HKN Energy III, Ltd.	46,446	98,058	(98,058)	46,446

EXHIBIT 1**HKN ENERGY III, LTD.**

Unconsolidated Cash Flow Statement

Period from May 27, 2021 to December 31, 2021

In thousands of US dollar

	<u>2021</u>
OPERATING ACTIVITIES	
Profit before income tax	46,446
Adjustments to add non-cash items:	
Finance expense	7,497
Finance expense - change in share acquisition liability	11,306
Income of equity affiliates	(66,431)
Changes in working capital and provisions:	
Prepaid expenses	(7)
Trade and other payables	70
Cash generated from operations	<u>(1,119)</u>
Interest paid	(6,001)
Net cash from operating activities	<u>(7,120)</u>
INVESTING ACTIVITIES	
Acquisition of controlling interest in HKN Energy, Ltd.	(80,000)
Cash acquired in acquisition of controlling interest in HKN Energy, Ltd.	265
Net cash from investing activities	<u>(79,735)</u>
FINANCING ACTIVITIES	
Proceeds from debt net of fees	98,000
Debt issuance costs	(181)
Shareholders' contributions	10,000
Net cash from financing activities	<u>107,819</u>
Net increase in cash and cash equivalents, and restricted cash	20,964
Cash and cash equivalents, and restricted cash at beginning of the period	-
Cash and cash equivalents, and restricted cash at end of the period	<u>20,964</u>
Of which restricted cash	18,000

EXHIBIT 1

HKN ENERGY III, LTD.

Unconsolidated Statement of Changes in Equity

Period from May 27, 2021 to December 31, 2021

In thousands of US dollar

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Equity attributable to HKN Energy III, LTD.</u>	<u>Total equity</u>
Total equity as of May 26, 2021	-	-	-	-	-
Profit for the period	-	-	46,446	46,446	46,446
Total comprehensive income	-	-	46,446	46,446	46,446
Capital contributions	-	10,000	-	10,000	10,000
Capital distributions	-	(177)	-	(177)	(177)
Contribution of HKN Holding, Ltd. shares	-	139,558	-	139,558	139,558
Issuance of common shares	1	-	-	1	1
Total transactions with shareholders	1	149,381	-	149,382	149,382
Total equity as of December 31, 2021	1	149,381	46,446	195,828	195,828

At December 31, 2021, there were 200,000 common shares authorized at a \$0.01 par value, with 100,000 common shares issued and outstanding. As of December 31, 2021, the Company held no treasury shares.