HKN ENERGY LTD.

Interim Financial Statements

June 30, 2022

(Unaudited)

HKN ENERGY LTD.

Statements of Financial Position

June 30, 2022 and December 31, 2021

In thousands of US dollar

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
ASSETS			
Non-current assets			
Property and equipment - oil properties (net)	**7**	447,589	435,228
Other property and equipment (net)	**8**	4,022	4,017
Total non-current assets		**451,611**	**439,245**
Current assets			
Inventory	**9**	13,089	9,505
Prepaid expenses		639	615
Trade and other receivables	**10**	143,844	137,108
Intercompany receivables	**20**	722	122
Short-term investments	**11**	117,217	-
Cash and cash equivalents	**12**	164,452	177,628
Restricted cash	**12**	10,683	7,163
Total current assets		**450,646**	**332,141**
TOTAL ASSETS		**902,257**	**771,386**
EQUITY AND LIABILITIES			
Equity			
Share capital		1	1
Additional paid-in capital		539,937	539,937
Retained earnings		134,380	12,678
Total equity		**674,318**	**552,616**
Non-current liabilities			
Debt (net of issuance costs and fees)	**15**	140,266	143,362
Lease liabilities	**16**	276	416
Decommissioning provisions	**17**	13,862	8,939
Total non-current liabilities		**154,404**	**152,717**
Current liabilities			
Trade and other payables	**14**	66,258	62,284
Debt	**15**	7,000	3,500
Lease liabilities	**16**	277	269
Total current liabilities		**73,535**	**66,053**
Total liabilities		**227,939**	**218,770**
TOTAL EQUITY AND LIABILITIES		**902,257**	**771,386**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Comprehensive Income

Six months ended June 30, 2022 and 2021

In thousands of US dollar

	Note	2022 (Unaudited)	2021 (Unaudited)
Continuing operations			
Revenue	**3**	211,720	117,805
Operating expenses		18,293	17,154
Oil transportation expenses		4,449	3,311
Depletion, depreciation and amortization		41,954	28,888
Cost of sales	**4**	64,696	49,353
Impairment of trade receivables	**10**	9,053	-
Gross profit		**137,971**	**68,452**
General and administrative expenses	**5**	9,600	7,800
Profit from operating activities		**128,371**	**60,652**
Finance income	**6, 15**	250	15
Finance expenses	**6, 15**	(6,403)	(6,490)
Other expense	**6**	(53)	(30)
Total profit		**122,165**	**54,147**
Other comprehensive expense			
Unrealized loss on short-term investments	**11**	(463)	-
Total comprehensive income		**121,702**	**54,147**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Cash Flow Statements

Six months ended June 30, 2022 and 2021

In thousands of US dollar

	Note	2022 (Unaudited)	2021 (Unaudited)
OPERATING ACTIVITIES			
Profit		122,165	54,147
Adjustments to add non-cash items:			
Depreciation, depletion and amortization	**7, 8, 17**	41,954	28,888
Finance income and expenses	**6**	6,153	6,475
Impairment of trade receivables	**10**	9,053	-
Changes in working capital and provisions:			
Trade and other receivables	**10**	(18,336)	(24,961)
Intercompany receivables	**20**	(600)	(635)
Prepaid expenses		(24)	(222)
Trade and other payables	**14**	4,435	9,282
Cash from operating activities		**164,800**	**72,974**
Interest received	**15**	169	14
Interest paid	**15**	(7,163)	(7,013)
Net cash from operating activities		**157,806**	**65,975**
INVESTING ACTIVITIES			
Purchases of property and equipment	**7, 8, 9**	(49,635)	(27,153)
Purchases of short-term investments	**11**	(117,680)	-
Net cash used in investing activities		**(167,315)**	**(27,153)**
FINANCING ACTIVITIES			
Proceeds from debt, net of fees	**15**	-	11,500
Payments of lease liabilities	**16**	(147)	(1,562)
Net cash from (used in) financing activities		**(147)**	**9,938**
Net increase (decrease) in cash and cash equivalents, and restricted cash		**(9,656)**	**48,760**
Cash and cash equivalents, and restricted cash at beginning of the period		184,791	90,098
Cash and cash equivalents, and restricted cash at end of the period	**12**	**175,135**	**138,858**
Of which restricted cash	12	10,683	7,213
Noncash capital expenditures in liabilities at period end		14,739	11,768

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Changes in Equity

Six months ended June 30, 2022 and 2021

In thousands of US dollar

	Note	Share capital	Additional paid-in capital	Retained earnings (accumulated deficit)	Total equity
Total equity as of January 1, 2021 (Audited)		**1**	**540,198**	**(125,564)**	**414,635**
Profit for the period allocated to Class A shareholder	**13**	-	-	36,683	**36,683**
Profit for the period allocated to Class B shareholder	**13**	-	-	17,464	**17,464**
Total comprehensive income		**-**	**-**	**54,147**	**54,147**
Total equity as of June 30, 2021 (Unaudited)		**1**	**540,198**	**(71,417)**	**468,782**
Total equity as of January 1, 2022 (Audited)		**1**	**539,937**	**12,678**	**552,616**
Profit for the period allocated to Class A shareholder	**13**	-	-	82,763	**82,763**
Profit for the period allocated to Class B shareholder	**13**	-	-	39,402	**39,402**
Unrealized loss on short-term investments	**11**	-	-	(463)	**(463)**
Total comprehensive income		**-**	**-**	**121,702**	**121,702**
Total equity as of June 30, 2022 (Unaudited)		**1**	**539,937**	**134,380**	**674,318**

At June 30, 2022 and 2021 there were 5,000,000 common shares authorized at a $0.01 par value, with 33,250 Class A shares and 15,830 Class B shares issued and outstanding. As of June 30, 2022 and 2021, the Company held no treasury shares.

See accompanying Notes to the Financial Statements

(1) Nature of Operations

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

In November 2007, HKN Energy entered into a Production Sharing Contract (PSC) with the Kurdistan Regional Government (KRG) for the Sarsang block in northern Kurdistan. A joint operating agreement (JOA) between HKN Energy and TEPKRI Sarsang A/S (formerly Maersk Oil Kurdistan A/S) (Total) governs joint operations in the Sarsang block. Under the Sarsang PSC, HKN Energy and Total (together, the Contractor entities) bear the risks and costs of exploration, development, and production activities at their respective working interest percentages. HKN Energy has a working and production sharing interest (PSC interest) of 77.5% and 62%, respectively, and Total has a working and PSC interest of 22.5% and 18%, respectively. The remaining 20% 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 six months period ended June 30, 2022 and 2021 was 38.9%.

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

- In 2012, the then Federal Minister of Oil (MoO) filed suit against the KRG, claiming the KRG's Oil and Gas Law is unconstitutional. The Iraq Federal Supreme Court (FSC) handed down a majority judgement on February 15, 2022 that purported to deem the oil and gas law regulating the oil industry in Kurdistan unconstitutional. The Company was not a party to that court action. Following the FSC ruling, the KRG issued a statement stating that the ruling was 'unjust, unconstitutional, and violates the rights and constitutional authorities of the Kurdistan Region', also stating that it 'will take all constitutional, legal, and judicial measures to protect and preserve all contracts made in the oil and gas sector.' The Company also notes reports of decisions made in absentia on July 4, 2022 in the Baghdad Commercial Court against the Company and several International Oil and Gas companies (IOCs) operating in Kurdistan. Any such decision was made without the Company having formal legal representation. Despite the reported July 4 decisions, the Company has not been formally notified or served with any judgment – a requirement under Iraqi law. Without being served or formally notified of any judgment, the Company has no comment on the contents of any purported judgment. The PSC that the Company is a party to was signed with the KRG and is governed by English law with an arbitration provision calling for any dispute regarding the validity of the PSC to be heard before a panel of arbitrators governed by the London Court of International Arbitration. The Company continues to monitor the situation closely and is working proactively with advisors in the UK, US, Erbil, and Baghdad, and is in dialogue with the KRG and other stakeholders to protect the interests of the Company. Although the Company has not experienced any operational impacts as a result of this ruling to date, the Company cannot currently estimate the potential implications, if any, of the FSC 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.

(2) Summary of Significant Accounting Policies

(a) Statement of Compliance

The unaudited financial statements for the six months period ended June 30, 2022 and 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The same accouning policies and methods of computation are followed in the interim financial statements as compared with the last annual financial statements. The unaudited financial statements were authorized for issuance by management on August 16, 2022.

(b) Basis of Accounting

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

(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 $164.5 million at June 30, 2022 and is significantly above the minimum requirements with regard to equity ratio and minimum liquidity covenant. The Company's financial forecasts and models incorporating downside cases with regard to oil prices and cash receipts show sufficient financial resources to continue as a Going Concern for the foreseeable future.

(d) Joint Arrangements

The Company is engaged in oil and gas exploration, development and production through an unincorporated joint arrangement, which is classified as a joint operation in accordance with IFRS 11 *Joint Arrangements*. In its financial statements, the Company accounts for its share of the related revenues in accordance with the distribution of oil sales proceeds required under the Sarsang PSC (see note 1). The Company accounts for its share of the expenses, assets and liabilities based on its working interest, which reflects the Company's contractual rights under the arrangement. In addition, where the Company acts as operator to the joint operation, the gross liabilities and receivables (including amounts due to or from non-operating partner) of the joint operation are included in the Company's statement of financial position (see notes 10 and 14).

(e) Use of Judgments and Estimates

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

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

(i) Judgments

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

Revenue Recognition

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

(ii) Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties at June 30, 2022 and 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 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.

The KRG continues to remit payment for current invoices within 60 to 90 days following the month of delivery. However, in 2022, the KRG implemented a price adjustment that is not in accordance with the current sales contract. As of June 30, 2022, management determined that an impairment allowance for receivables impacted by the price adjustment should be recorded. See note 21 for further discussion.

Impairment of oil properties

In line with the Company's accounting policy on impairment, 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 June 30, 2022 and December 31, 2021 was the Sarsang block with a carrying value of $447.6 million and $435.2 million, respectively. The Company performed an impairment indicator evaluation as of June 30, 2022 and December 31, 2021 considering relevant factors such as global oil prices, expected future production and potential changes to future development plans. The potential impact of such factors together with other possible changes to key assumptions and available mitigating actions showed that no impairment indicators arose for these reporting periods.

(f) 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.

(3) Revenue

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Six months ended June 30, 2021 (unaudited)**
Revenue		
Oil sales	211,720	117,805
	211,720	**117,805**

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

(4) Cost of Sales

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Six months ended June 30, 2021 (unaudited)**
Cost of Sales		
Operating expenses	(18,293)	(17,154)
Depletion, depreciation and amortization	(41,954)	(28,888)
Transportation costs	(4,449)	(3,311)
	(64,696)	**(49,353)**

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

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

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

(5) General and Administrative Expenses

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Six months ended June 30, 2021 (unaudited)**
General and administrative expenses		
Personnel costs…..	(5,700)	(4,548)
Legal and consulting…..	(1,191)	(1,297)
Office and apartment rent, security and supplies……......	(1,811)	(1,423)
Travel costs…..	(383)	(192)
Other general and administrative…................................	(515)	(340)
	(9,600)	**(7,800)**

Personnel costs of $5.7 million and $4.5 million during the six months ended June 30, 2022 and 2021, respectively, include salaries, bonuses, employer's payroll tax expenses, deferred compensation and other miscellaneous costs.

(6) Finance Income and Expense / Other Expenses

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Six months ended June 30, 2021 (unaudited)**
Finance income		
Interest income from cash and cash equivalents………	250	15
Finance expenses		
Interest expense from debt………………………………….	(7,188)	(7,107)
Amortization of debt issuance costs…………………….	(404)	(405)
Interest expense recognized on lease liabilities……….	(15)	(55)
Transfer to capitalized interest…………………………….	1,204	1,077
Other expenses		
Other expense………………………………………………..	(53)	(30)
	(6,206)	**(6,505)**

Other expenses of less than $0.1 million for both the six months ended June 30, 2022 and 2021 include bank fees, losses on foreign currency translations, and losses associated with dispositions of inventory offset by gains on sales of other property and equipment and administration fees charged on supplier rebills.

(7) Property and Equipment – Oil Properties

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Year ended December 31, 2021 (audited)**
Oil & gas assets		
Balance at January 1	659,265	563,584
Additions	47,457	92,423
RoU asset remeasurements	-	(504)
Capitalized interest	1,204	1,407
Decommissioning provision	4,712	2,355
Balance at period end	**712,638**	**659,265**
Accumulated depletion and impairment		
Balance at January 1	(224,037)	(162,109)
Depletion charge	(40,764)	(61,415)
Depreciation of RoU assets	(248)	(513)
Balance at period end	**(265,049)**	**(224,037)**
Carrying value - oil & gas assets		
at January 1	435,228	401,475
at period end	447,589	435,228

The carrying value of oil and gas assets at June 30, 2022 and December 31, 2021 is comprised of property, plant and equipment relating to the Sarsang block and has a carrying value of $447.6 million and $435.2 million respectively.

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

The Company's oil and gas properties balance as of June 30, 2022 and December 31, 2021 included $10.5 million of right-of-use ("RoU") assets, which are related to oil production facility leases (see note 16). The RoU assets are depreciated straight-line over the lifetime of their underlying asset.

For the six months ended June 30, 2022 and the year ended December 31, 2021, $1.2 million and $1.4 million, respectively, of interest expense was capitalized within oil and gas properties in relation to debt incurred to finance the construction of PP&E assets. The Company uses a weighted average interest rate (annual interest expense on debt divided by total principal balance) to determine the amount of interest to be capitalized.

For each of the periods presented, the depletion charges and depreciation of RoU assets have been included in Depletion, Depreciation and Amortization within Cost of Sales on the accompanying statements of comprehensive income (see note 4). The carrying values of oil properties are depreciated on a PSC-wide basis using the unit-of-production basis. RoU assets are depreciated on a straight-line basis.

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

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Year ended December 31, 2021 (audited)**
Acquisition cost		
Balance at January 1	10,572	9,666
Additions	736	906
Balance at period end	**11,308**	**10,572**
Accumulated depreciation and impairment		
Balance at January 1	(6,555)	(5,139)
Depreciation charge	(606)	(1,165)
Depreciation of RoU Assets	(125)	(251)
Balance at period end	**(7,286)**	**(6,555)**
Carrying value		
at January 1	4,017	4,527
at period end	4,022	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. Assets in Other Property and Equipment are depreciated on a straight-line basis.

(9) Inventory

In thousands of US dollar	**June 30, 2022 (unaudited)**	**December 31, 2021 (audited)**
Inventory		
Warehouse stocks and materials	13,089	9,505
	13,089	**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 are carried at recoverable cost. $1.7 million and $0.5 million of additions to inventory were included in purchases of property and equipment on the accompanying statements of cash flows for the six months ended June 30, 2022 and 2021, respectively.

(10) Trade and Other Receivables

In thousands of US dollar	June 30, 2022 (unaudited)	December 31, 2021 (audited)
Trade and other receivables		
Receivables from oil sales...........................	151,109	132,937
Receivables from transportation costs..........	4,288	4,161
Receivables from co-venturer.......................	-	-
Other receivables.......................................	128	10
	155,525	**137,108**
Less impairment allowance.........................	(11,681)	-
	143,844	**137,108**

Receivables from oil sales: The majority of accounts receivable are from oil sales to the KRG as purchaser of the Company and its co-venturer's oil. A corresponding payable of $31.9 million and $29.9 million at June 30, 2022 and December 31, 2021, respectively, is recorded in Revenues Payable within Trade and Other Payables on the accompanying statements of financial position for the portion of this receivable due to the Company's co-venturer (see note 14). See note 21 for further discussion.

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 PSC.

Receivables from co-venturer: The Company's co-venturer is billed monthly for their portion of forecasted capital spending in advance, with amounts due from or owed to the co-venturer from the previous month netted against the current funding request. At June 30, 2022 and December 31, 2021, the amount of cash advances paid exceeded the amount of receivables due from the Company's co-venturer, resulting in respective net capital spending advance positions of $0.4 million and $0.5 million, included within trade and other payables on the accompanying consolidated statements of financial position (see note 14).

Other receivables: Other receivables at June 30, 2022 and December 31, 2021 consisted primarily of interest receivable on cash invested in money market accounts.

Impairment allowance: An impairment allowance of $11.7 million was recorded at June 30, 2022 to account for receivables from oil sales for which the Company is uncertain if the amounts will be collected from the KRG. See note 21 for further discussion. The Company's share of the allowance amounting to $9.1 million is recorded as impairment of trade receivables on the accompanying statements of comprehensive income. Revenues payable within trade and other payables on the accompanying consolidated statements of financial position was reduced for the Company's co-venturer's share of the allowance.

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

(11) Short Term Investments

In May 2022, the Company purchased US Treasury bills and notes with maturities within one year from the date of purchase. These securities have been recorded as short-term investments on the accompanying consolidated statements of financial position. As the Company plans to distribute these securities to shareholders rather than holding to maturity, in accordance with IFRS 9 *Financial Instruments*, the securities have been measured at fair value with the change in fair value presented as unrealized loss on short-term investments within other comprehensive income on the accompanying consolidated statements of comprehensive income.

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Year ended December 31, 2021 (audited)**
Short-term investments		
Beginning balance…...	-	-
Purchase of 1-year US Treasury securities….....	117,680	-
Change in fair value of securities….....................	(463)	-
Balance at period end…….................................	**117,217**	**-**

(12) Cash and Cash Equivalents, and Restricted Cash

In thousands of US dollar	**June 30, 2022 (unaudited)**	**December 31, 2021 (audited)**
Cash and cash equivalents		
Cash in bank accounts and on hand.…...............	597	657
Cash in money market investment accounts…….	143,900	176,971
Cash equivalents………………………………………	19,955	-
	164,452	**177,628**
Restricted cash		
Restricted cash……………………………………….	10,683	7,163
	10,683	**7,163**

See note 15 for information on the restricted cash balance.

In May 2022, the Company purchased US Treasury bills with original maturities of less than three months. These securities had a fair value of $20.0 million at June 30, 2022, and are included as cash and cash equivalents on the accompanying consolidated statement of financial position. The change in fair value at the end of each reporting period is recorded as finance income or finance expense on the accompanying consolidated statement of comprehensive income (see note 6).

(13) Equity

In August 2018, HKN Energy purchased the entire interest previously held by Marathon Oil KDV B.V. (“Marathon”), a member of the JOA with HKN Energy and TEPKRI Sarsang A/S. Upon closing the acquisition of the interest, all of the outstanding common shares of HKN Energy were redesignated as Class A common shares and a new share Class B was authorized by the Company’s board of directors. The Company’s Class A common shares hold voting, capital and income rights attached to the 52.5% working and 42% participating interest in the Sarsang PSC held by the Company prior to its acquisition of interest from Marathon, and the Class B common shares hold voting, capital, and income rights attached to the interest acquired from Marathon.

During the six months ended June 30, 2022 and 2021, the Company did not receive any cash contributions from, or make any cash distributions to, its Class A or Class B common shareholders.

For the six months ended June 30, 2022, net profit attributable to the Company’s Class A and Class B common shareholders was $82.8 million and $39.4 million, respectively. For the six months ended June 30, 2021, net profit attributable to the Company’s Class A and Class B common shareholders was $36.7 million and $17.5 million, respectively.

(14) Trade and Other Payables

In thousands of US dollar	**June 30, 2022 (unaudited)**	**December 31, 2021 (audited)**
Trade and other payables		
Accounts payable	23,513	20,280
Revenues payable to co-venturer	31,916	29,911
Capital spending advances to co-venturer	409	532
Transportation payable	2,315	2,446
Accrued expenses		
Compensation payable	3,739	4,828
Accrued interest	3,941	3,916
PSC obligations	228	57
Other accrued expenses	197	314
	66,258	**62,284**

Accounts payable comprise invoices due to suppliers and are normally settled within 30 days. See note 10 for explanation of revenues and transportation payable. Compensation payable consists primarily of bonuses payable, which are settled in the subsequent year. Accrued interest relates to debt payable (see note 15). See note 19 for explanation of PSC obligations. Other accrued expenses primarily include payables to related affiliates for general and administrative services (see note 20).

(15) Debt and Finance Income/Expenses

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

Per the loan terms, the Company must establish an account and keep it funded up to the Debt Service Reserve Requirement, which equals amounts due on the loan for the immediately succeeding six months. Therefore, the Company had $5.2 million in a debt service reserve for the loan included as restricted cash on the accompanying statement of financial position at June 30, 2022. Per the loan's financial covenants, the Company must maintain a Reserve Tail Ratio of no less than 20%, a ratio of Current Assets to Current Liabilities of 1:1, and funds or assets on deposit with a market value at least equal to the Debt Service Reserve Requirement (see discussion above). Upon completion of the production facility, the Company must maintain a ratio of Net Cash Flow to Debt Service of not less than 1.4 to 1 for both the most recently completed and the next succeeding four consecutive full fiscal quarters. As of June 30, 2022 and December 31, 2021, the Company was in compliance with all required financial covenants. The Company expects to remain in compliance with all of the loan's required financial covenants for a period of one year from the date the financial statements are authorized to be issued.

On March 6, 2019, the Company closed on a five-year unsecured bond of $100 million with semi-annual interest payments at a coupon rate of 11%. The bond matures on March 6, 2024. Per the bond terms, the bond should be on a pari passu basis with any additional debt the Company secures. Therefore, as a result of the Company securing the loan discussed above, the Company had $5.5 million (six months of interest) in a debt service reserve for the bond included as restricted cash on the accompanying statement of financial position at June 30, 2022. Per the bond's financial covenants, the Company must maintain a minimum Equity Ratio of 40%, and a minimum liquidity of 1.5 times the estimated next 12 months interest based on the outstanding debt as of the calculation date. As of June 30, 2022 and 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 financial statements are authorized to be issued.

The net proceeds from the debt instruments have been and will continue to be used to fund ongoing operations of the Company. At June 30, 2022 and December 31, 2021, total current and non-current debt, net of debt issuance costs and fees, consisted of the following:

In thousands of US dollar	**June 30, 2022 (unaudited)**	**December 31, 2021 (audited)**
Debt, net of issuance costs and fees - current		
Debt payable - current……………………………………	7,000	3,500
	7,000	**3,500**
Debt, net of issuance costs and fees - non-current		
Debt payable - non-current……………………………	142,000	145,500
Debt issuance fees…………………………………………	(2,941)	(2,941)
Debt issuance costs………………………………………	(1,236)	(1,236)
Amortization of debt issuance costs and fees…….	2,443	2,039
	140,266	**143,362**

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

In thousands of US dollar	
2022	3,500
2023	7,000
2024	107,000
2025	7,000
2026	7,000
Thereafter	17,500
	149,000

At June 30, 2022 and December 31, 2021, accrued interest of $3.9 million was included within Trade and Other Payables on the accompanying statement of financial position (see note 14). For the six months ended June 30, 2022 and 2021, finance income and finance expense consisted of the following:

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Six months ended June 30, 2021 (unaudited)**
Finance income		
Interest income from cash and cash equivalents..........	169	14
Change in interest receivable....................................	81	1
	250	**15**
Finance expense		
Cash payments for interest......................................	(7,163)	(7,013)
Change in interest accrual..	(25)	(94)
Amortization of debt issuance costs and fees.............	(404)	(405)
Interest expense on leases.......................................	(15)	(55)
Transfer to capitalized interest..................................	1,204	1,077
	(6,403)	**(6,490)**

(16) Lease Liabilities

As of June 30, 2022, current lease liabilities of $0.3 million and non-current lease liabilities of $0.3 million are included on the accompanying statement of financial position. These lease liabilities are related to the fixed rent component of office space leases. 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 statement of financial position. These lease liabilities are related to the fixed rent component of office space leases.

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Year ended December 31, 2021 (audited)**
Lease liabilities		
Balance at January 1....................................	685	4,375
Remeasurement of lease liability....................	-	(504)
Lease payments..	(147)	(3,258)
Interest expense..	15	72
Balance at period end..................................	**553**	**685**
Current portion (within one year).....................	277	269
Non-current portion (two to five years).............	276	416
	553	**685**

The identified lease liabilities have no significant impact on the Company's financing or debt covenants. The Company does not have any residual value guarantees. Extension options are included in the lease liability when, based on management's judgment, it is reasonably certain that an extension will be exercised. The Company also has short-term apartment and office leases. Some office leases include a variable rent component. Total payments for short-term leases and the variable rent component of office leases were $0.4 million and $0.4 million for the six months ended June 30, 2022 and 2021, respectively, and were recognized within general and administrative expenses.

In thousands of US dollar	**June 30, 2022 (unaudited)**	**December 31, 2021 (audited)**
Lease maturity analysis		
Year 1	-	-
Year 2	243	320
Year 3	310	365
Year 4	-	-
Year 5	-	-
	553	**685**
Amounts payable under leases		
Within one year	298	295
Two to five years	284	434
	582	**729**
Less future interest charges	(29)	(44)
Less future remeasurement of lease liability	-	-
Net present value of lease obligations	**553**	**685**

(17) Decommissioning Provisions

In thousands of US dollar	**Six months ended June 30, 2022 (unaudited)**	**Year ended December 31, 2021 (audited)**
Decommissioning provisions		
Balance at January 1	8,939	6,316
Additions	4,712	2,355
Accretion expense	211	268
Balance at period end	**13,862**	**8,939**

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

(18) Financial Instruments – Fair Value

In thousands of US dollar	**June 30, 2022 (unaudited)**	**December 31, 2021 (audited)**
Financial assets		
Cash and cash equivalents	164,452	177,628
Restricted cash	10,683	7,163
Trade and other receivables	143,844	137,108
Intercompany receivables	722	122
Short-term investments	117,217	-
	436,918	**322,021**
Financial liabilities		
Trade and other payables	66,258	62,284
Current and non-current debt - bonds	98,166	103,576
Current and non-current debt - loans	49,000	49,000
	213,424	**214,860**

Fair values of financial assets and trade and other payables:

The Company considers that the carrying value of its financial assets excluding short-term investments and the carrying value of its trade and other payables approximates their fair values due to the short-term maturity of these instruments. Short-term investments (see note 11) are marked to fair value using quoted prices at the end of each reporting period.

Fair values of debt:

The Company obtained quoted prices for its $100 million bond (see note 15), noting that the bond was trading at 98.166 percent of par and 103.576 percent of par at June 30, 2022 and December 31, 2021, respectively. Therefore, the fair value of the bond approximated $98.2 million and $103.6 million at June 30, 2022 and December 31, 2021, respectively. The Company considers the carrying value of its $49.0 million loan (see note 15) to approximate fair value at June 30, 2022 and 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.

(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 matter previously described in note 1.

The Company and its co-venturer have certain commitments defined by the PSC that are contingent upon the timing and length of the exploration, development, and production periods. These include Contractor obligations of $0.3 million due in each year (unpaid amounts are accrued as PSC obligations within trade and other payables) and total aggregate payments of up to $37.5 million due upon meeting four defined thresholds during the development phase of the PSC, of which $2.5 million and $5 million were paid by the Contractor to the KRG in 2014 and 2018, respectively. The third defined production threshold of 25 million barrels of crude oil was met in April 2020, and the required $10 million was offset against the outstanding oil sales receivables from the KRG (see further discussion in note 21). The Company's working interest share of the $2.5 million and $5 million production bonuses paid, as well as the $10 million production bonus offset against receivables, are expensed within operating expenses on the accompanying statement of comprehensive income for the periods during which the payments were made. The fourth defined production threshold will be reached when production from the contract area reaches a cumulative amount of 50 million barrels of crude oil and $20 million will be owed by the Contractor to the KRG. The Company anticipates reaching the fourth production threshold in 2022. The production bonuses represent an outflow of the Company's resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with IFRIC 21 *Levies* which requires that the obligation be recognized on the date at which the production milestone is reached.

In addition, 20% of HKN Energy's profit petroleum is committed to a capacity building fund as set forth in the PSC. This value is retained by the KRG as a portion of its entitled production and is not included in HKN revenues or expenses.

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

(20) Related Party Transactions

On a periodic basis, net amounts due to and from affiliates under common control are settled through cash payments and cash receipts from affiliates. During the six months ended June 30, 2022 and 2021, the Company paid general and administrative expenses of $0.6 million and $0.4 million, respectively, to related entities for management and administrative services provided to the Company, and rent. At June 30, 2022 and December 31, 2021, there was a net related party receivable outstanding of $0.7 million and $0.1 million, respectively, as intercompany receivables on the accompanying statements of financial position.

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

In December 2020 and May 2021, the KRG presented plans to the Company detailing how it would pay the overdue November 2019 through February 2020 oil sales invoices, amounting to $88.5 million of receivables from oil sales and transportation costs ($68.6 million net to the Company). Under the terms of the plans, certain outstanding liabilities owed by the Company to the KRG would be offset against oil sales receivables. The Company was also entitled to supplemental payments on monthly invoices when Dated Brent prices exceeded $50 per barrel.

Effective January 2022, the KRG implemented a price adjustment that is not in accordance with the current sales contract in order to account for increased export pipeline tariffs incurred by the KRG. This resulted in an adjustment of $5.1 million related to 2021 oil sales, and it was communicated by the KRG that this amount was being offset against amounts owed for the November 2019 to February 2020 oil sales invoices; thus, the Company recorded the $5.1 million as an impairment of receivables. An additional $6.6 million has been withheld, or is expected to be withheld at time of payment, from monthly invoice payments for oil sales in the first half of 2022. The $6.6 million was recorded as an additional impairment of receivables.

As of June 30, 2022, the Company has received supplemental payments totaling $58.0 million and has offset liabilities owed to the KRG totaling $25.4 million. Additionally, the $5.1 million related to the 2021 oil sales price adjustment was communicated by the KRG as being offset against November 2019 through February 2020 oil sales invoices. No further supplemental payments or offsets are anticipated in regards to the November 2019 through February 2020 oil sales invoices.

The Company continues to record revenue in accordance with the price stipulated in the sales contract. Although the Company is in discussions with the KRG regarding the above-mentioned price adjustment, it has recorded the $11.7 million impairment allowance for its receivables as discussed above, pending a more definitive agreement with the KRG.

(22) Subsequent Events

On July 7, 2022, the Company received a $43.7 million payment from the KRG. Of this amount, $43.4 million was attributable to April 2022 oil sales ($33.6 million net to the Company).

On August 10, 2022, the Company made a $150 million dividend payment to its common shareholders ($101.6 million to its Class A shareholder and $48.4 million to its Class B shareholder) in the form of cash and short-term investments.

The Company has evaluated subsequent events from the statement of financial position date through August 16, 2022, the date at which the financial statements were authorized to be issued and determined that there are no other items to disclose.