HKN ENERGY LTD.

Interim Financial Statements

June 30, 2023

(Unaudited)

HKN ENERGY LTD.

Statements of Financial Position

June 30, 2023 and December 31, 2022

In thousands of US dollar

	Note	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS			
Non-current assets			
Property and equipment - oil properties (net)	**6**	467,521	467,842
Other property and equipment (net)	**7**	3,912	4,186
Total non-current assets		**471,433**	**472,028**
Current assets			
Inventory	**8**	22,450	19,069
Prepaid expenses		527	844
Trade and other receivables	**9**	173,621	182,414
Affiliate receivables	**19**	651	366
Short-term investments	**10**	-	6,667
Cash and cash equivalents	**11**	116,502	111,193
Restricted cash	**11**	10,462	10,549
Total current assets		**324,213**	**331,102**
TOTAL ASSETS		**795,646**	**803,130**
EQUITY AND LIABILITIES			
Equity			
Share capital		1	1
Additional paid-in capital		539,937	539,937
Retained earnings		37,636	35,478
Total equity		**577,574**	**575,416**
Non-current liabilities			
Debt (net of issuance costs and fees)	**14**	34,453	137,166
Lease liabilities	**15**	194	131
Decommissioning provisions	**16**	15,516	15,225
Total non-current liabilities		**50,163**	**152,522**
Current liabilities			
Trade and other payables	**13**	61,102	67,906
Debt (net of issuance costs and fees)	**14**	106,605	7,000
Lease liabilities	**15**	202	286
Total current liabilities		**167,909**	**75,192**
Total liabilities		**218,072**	**227,714**
TOTAL EQUITY AND LIABILITIES		**795,646**	**803,130**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Comprehensive Income

Six months ended June 30, 2023 and 2022

In thousands of US dollar

	Note	2023 (Unaudited)	2022 (Unaudited)
Continuing operations			
Revenue	**3**	101,194	211,720
Operating expenses		21,130	18,293
Oil transportation expenses		4,373	4,449
Depletion, depreciation and amortization		29,982	41,954
Cost of sales	**4**	55,485	64,696
Impairment of trade receivables	**9, 20**	23,583	9,053
Gross profit		**22,126**	**137,971**
General and administrative expenses	**5**	9,301	9,600
Profit from operating activities		**12,825**	**128,371**
Finance income	**14**	2,825	250
Finance expenses	**14**	(7,412)	(6,403)
Other expense		(65)	(53)
Total profit		**8,173**	**122,165**
Other comprehensive expense			
Unrealized gain (loss) on short-term investments	**10**	112	(463)
Reclassification adjustment for gain on short-term investments to finance income	**10**	(127)	-
Total other comprehensive income (expense)		**(15)**	**(463)**
Total comprehensive income		**8,158**	**121,702**

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Cash Flow Statements

Six months ended June 30, 2023 and 2022

In thousands of US dollar

	Note	2023 (Unaudited)	2022 (Unaudited)
OPERATING ACTIVITIES			
Profit		8,173	122,165
Adjustments to add non-cash items:			
Depreciation, depletion and amortization	**6, 7, 16**	29,982	41,954
Finance income and expenses	**14**	4,587	6,153
Operating expense to produce oil inventory	**4**	(1,973)	-
Impairment of trade receivables	**9, 20**	23,583	9,053
Spare parts inventory expensed		286	-
Changes in working capital and provisions:			
Trade and other receivables	**9**	(14,653)	(18,336)
Affiliate receivables	**19**	(285)	(600)
Prepaid expenses		317	(24)
Trade and other payables	**13**	1,671	4,435
Cash from operating activities		**51,688**	**164,800**
Interest received	**14**	2,561	169
Interest paid	**14**	(7,015)	(7,163)
Net cash from operating activities		**47,234**	**157,806**
INVESTING ACTIVITIES			
Payments for property and equipment	**6, 7, 8**	(39,142)	(49,635)
Purchases of short-term investments	**10**	-	(117,680)
Maturity of short-term investments	**10**	6,779	-
Net cash used in investing activities		**(32,363)**	**(167,315)**
FINANCING ACTIVITIES			
Repayments of debt	**14**	(3,500)	-
Payments of lease liabilities	**15**	(149)	(147)
Shareholders' distributions	**12**	(6,000)	-
Net cash used in financing activities		**(9,649)**	**(147)**
Net increase (decrease) in cash and cash equivalents, and restricted cash		**5,222**	**(9,656)**
Cash and cash equivalents, and restricted cash at beginning of the period		121,742	184,791
Cash and cash equivalents, and restricted cash at end of the period	**11**	**126,964**	**175,135**
Restricted cash	**11**	10,462	10,683
Noncash capital expenditures in liabilities at period end		5,902	14,739

See accompanying Notes to the Financial Statements

HKN ENERGY LTD.

Statements of Changes in Equity

Six months ended June 30, 2023 and 2022

In thousands of US dollar

	Note	Share capital	Additional paid-in capital	Retained earnings (accumulated deficit)	Total equity
Total equity as of January 1, 2022 (Audited)		**1**	**539,937**	**12,678**	**552,616**
Shareholders' distributions		-	-	-	-
Profit for the period allocated to Class A shareholder	**12**	-	-	82,763	**82,763**
Profit for the period allocated to Class B shareholder	**12**	-	-	39,402	**39,402**
Unrealized gain (loss) on short-term investments	**10**	-	-	(463)	**(463)**
Total comprehensive income		-	-	**121,702**	**121,702**
Total equity as of June 30, 2022 (Unaudited)		**1**	**539,937**	**134,380**	**674,318**
Total equity as of January 1, 2023 (Audited)		**1**	**539,937**	**35,478**	**575,416**
Shareholders' distributions	**12**	-	-	**(6,000)**	**(6,000)**
Profit for the period allocated to Class A shareholders	**12**	-	-	5,537	**5,537**
Profit for the period allocated to Class B shareholders	**12**	-	-	2,636	**2,636**
Unrealized gain (loss) on short-term investments	**10**	-	-	112	**112**
Reclassification adjustment for gain on short-term investments to finance income	**10**	-	-	(127)	**(127)**
Total comprehensive income		-	-	**8,158**	**8,158**
Total equity as of June 30, 2023 (Unaudited)		**1**	**539,937**	**37,636**	**577,574**

At June 30, 2023 and 2022 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, 2023, 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 Shamaran Sarsang A/S (Shamaran) governs joint operations in the Sarsang block. Under the Sarsang PSC, HKN Energy and Shamaran (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 Shamaran 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 are 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, 2023 and 2022 was 38.9%.

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

- The Iraq-Turkey pipeline was shut in on March 25, 2023, following reports of a favorable ruling for Iraq in its arbitration case against Turkey which dates to 2014. The pipeline remains closed as officials in Iraq and Turkey work through political and logistical issues for a restart of exports of crude oil from the Kurdistan Region of Iraq. Since the closure of Iraq-Turkey pipeline, all of HKN's crude oil sales have been made to local refineries in the Kurdistan Region of Iraq under short-term contracts.
- 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 judgment 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. 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)(i), note 9, and note 20.

(2) Summary of Significant Accounting Policies

(a) Statement of Compliance

The unaudited financial statements for the six months period ended June 30, 2023 and 2022 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The same accounting 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 21, 2023.

(b) Basis of Accounting

The financial statements included in the half-yearly financial report have been prepared under the historical cost basis. The principal accounting policies adopted are set out below.

(c) Going Concern

The Company regularly evaluates its financial position, cash flow forecasts and its compliance with financial covenants through financial modeling and assessing the model outputs from multiple scenarios with different oil price, production, expenditure and cash receipt variables. The Company has unrestricted cash balances totaling $116.5 million at June 30, 2023 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 9 and 13).

(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, 2023 and 2022 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:

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, 2023 and December 31, 2022 was the Sarsang block with a carrying value of $467.5 million and $467.8 million, respectively. The Company performed an impairment indicator evaluation as of June 30, 2023 and December 31, 2022 considering relevant factors such as global oil prices, expected future production, and potential changes to future development plans. Given the current operating environment, the Company has assessed the assets for impairment based on forecasted future cash flows, which indicated no impairment as of June 30, 2023. No impairment indicators arose for the reporting period ended December 31, 2022.

Expected Credit Loss

As of June 30, 2023, the Company is owed oil sales from September 2022 through March 2023. In accordance with IFRS 9 *Financial Instruments,* management has compared the carrying value of these receivables with the present value of the estimated future cash flows based on a discount rate of 14.86% and a number of collection scenarios. The expected credit loss (ECL) is the probability-weighted average of these scenarios based on expected timing of repayment and has been recorded as impairment expense in the accompanying consolidated statement of comprehensive income. See note 9 for further discussion.

(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, 2023 (unaudited)**	**Six months ended June 30, 2022 (unaudited)**
Revenue		
Oil sales……	101,194	211,720
	101,194	**211,720**

Historically, the Company has sold 100% of its production volumes to the KRG. Since the closure of the Iraq-Turkey pipeline on March 25, 2023, the Company has sold crude oil to local purchasers in the Kurdistan region of Iraq under short-term contracts that require payment prior to loading. The Company recognizes revenue based on the volumes sold at the delivery point when its performance obligation is satisfied.

(4) Cost of Sales

In thousands of US dollar	**Six months ended June 30, 2023 (unaudited)**	**Six months ended June 30, 2022 (unaudited)**
Cost of Sales		
Operating expenses………………………………….	23,103	18,293
Operating expense to produce oil inventory…….	(1,973)	-
Total operating expenses……………………………	21,130	18,293
Depletion, depreciation and amortization……….	33,427	41,954
Depletion expense related to oil inventory……….	(3,445)	-
Total Depletion, depreciation and amortization…	29,982	41,954
Transportation costs…………………………………	4,373	4,449
	55,485	**64,696**

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 delivery point.

As of June 30, 2023, the Company had approximately 471,000 barrels of oil in off-site storage. These volumes are valued at the cost to produce, which consists of $2.0 million of operating expense and $3.4 million of depletion expense and is capitalized as inventory.

(5) General and Administrative Expenses

In thousands of US dollar	Six months ended June 30, 2023 (unaudited)	Six months ended June 30, 2022 (unaudited)
General and administrative expenses		
Personnel costs…..	5,211	5,700
Legal and consulting…..	1,437	1,191
Office and apartment rent, security and supplies…….....	1,883	1,811
Travel costs…...	338	383
Other general and administrative…................................	432	515
	9,301	**9,600**

Personnel costs of $5.2 million and $5.7 million during the six months ended June 30, 2023 and 2022, respectively, include salaries, bonuses, employer's payroll tax expenses, deferred compensation, and other miscellaneous costs.

(6) Property and Equipment – Oil Properties

In thousands of US dollar	Six months ended June 30, 2023 (unaudited)	Year ended December 31, 2022 (audited)
Oil assets		
Balance at January 1………………………………	780,898	659,265
Additions………………………………………………	32,008	114,436
Capitalized interest…………………………………	-	1,385
Decommissioning provision additions………….	-	5,812
Balance at period end………………………………	**812,906**	**780,898**
Accumulated depletion and impairment		
Balance at January 1………………………………	(313,056)	(224,037)
Depletion charge……………………………………	(32,081)	(88,522)
Depreciation of RoU assets………………………	(248)	(497)
Balance at period end………………………………	**(345,385)**	**(313,056)**
Carrying value - oil assets		
at January 1……………………………………………	467,842	435,228
at period end…………………………………………	467,521	467,842

The carrying value of oil assets at June 30, 2023 and December 31, 2022 is comprised of property, plant and equipment relating to the Sarsang block and has a carrying value of $467.5 million and $467.8 million respectively.

Oil properties additions 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 properties balance as of June 30, 2023 and December 31, 2022 included $10.5 million of right-of-use ("RoU") assets, which are related to oil production facility leases (see note 15). The RoU assets are depreciated straight-line over the lifetime of their underlying asset.

For the year ended December 31, 2022, $1.4 million of interest expense was capitalized within oil properties in relation to debt incurred to finance the construction of PP&E assets. The Company used a weighted average interest rate (annual interest expense on debt divided by total principal balance) to determine the amount of interest to be capitalized. In 2023, the Company no longer capitalized interest once the assets were placed in service.

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.

(7) Other Property and Equipment

In thousands of US dollar	**Six months ended June 30, 2023 (unaudited)**	**Year ended December 31, 2022 (audited)**
Acquisition cost		
Balance at January 1	12,234	10,572
Additions	415	1,662
RoU asset additions/remeasurement	118	-
Balance at period end	**12,767**	**12,234**
Accumulated depreciation and impairment		
Balance at January 1	(8,048)	(6,555)
Depreciation charge	(680)	(1,242)
Depreciation of RoU Assets	(127)	(251)
Balance at period end	**(8,855)**	**(8,048)**
Carrying value		
at January 1	4,186	4,017
at period end	3,912	4,186

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.

(8) Inventory

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Inventory		
Warehouse stocks and materials	17,032	19,069
Oil	5,418	-
	22,450	**19,069**

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. $4.0 million and $1.7 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, 2023 and 2022, respectively.

As of June 30, 2023, the Company had approximately 471,000 gross barrels of oil in offsite storage tanks. These volumes have been valued at lower of cost or net realizable value and recorded at an estimated cost of $5.4 million within inventory on the accompanying statements of financial position. Inventory cost was assessed based on the operating and depletion expenses associated with the oil quantities produced and placed in storage.

(9) Trade and Other Receivables

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Trade and other receivables		
Receivables from oil sales..........................	198,592	183,835
Receivables from transportation costs..........	5,976	5,995
Receivables from co-venturer......................	4,741	4,827
Other receivables......................................	229	91
	209,538	**194,748**
Less impairment allowance........................	(12,334)	(12,334)
Less expected credit loss allowance...........	(23,583)	-
	173,621	**182,414**

Receivables from oil sales: The majority of accounts receivable are from oil sales to the KRG as purchaser of the Company's oil. With the exception of September 2022 through March 2023, the Company markets oil on behalf of its co-venturer, and as such also carries the co-venturer's receivable on the accompanying statements of financial position. A corresponding payable to the co-venturer of $0.3 million and $9.5 million at June 30, 2023 and December 31, 2022, respectively, was recorded in revenues payable within trade and other payables (see note 13). See note 20 for further discussion regarding oil sales receivables from the KRG.

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, 2023 and December 31, 2022, the amount of receivables due from the Company's co-venturer exceeded the amount of cash advances paid, resulting in a net receivable position of $4.7 million and $4.8 million, included within trade and other receivables on the accompanying consolidated statements of financial position.

Other receivables: Other receivables at June 30, 2023 and December 31, 2022 consisted primarily of interest receivable on cash invested in money market accounts.

Impairment allowance: An impairment allowance of $12.3 million remains recorded at June 30, 2023, of which $9.1 million represents the Company's share, to account for prior year receivables from oil sales for which the Company is uncertain if the amounts will be collected from the KRG. The $9.1 million is recorded as impairment of trade receivables on the statement of comprehensive income as of June 30, 2022. See note 20 for further discussion. 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.

Expected credit loss allowance: An impairment allowance related to expected credit loss of $23.6 million was recorded at June 30, 2023 to account for the change in the present value of receivables owed from the KRG for six months of oil sales. As the Company was not marketing oil on behalf of its co-venturer during the six months of oil sales oustanding, the $23.6 million allowance represents the Company's net share of the expected credit loss. The Company expects to fully recover the receivable balance of $190.7 million, but the terms of recovery are not determined. An explanation of the assumptions and estimates in assessing the net present value of the oil sales receivables are provided in note 2(e)(ii).

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

(10) Short Term Investments

In May 2022, the Company purchased US Treasury bills and notes with maturities within one year from the date of purchase, which were recorded as short-term investments on the accompanying statements of financial position. In August 2022, the Company distributed $110.8 million in short-term investments to its shareholders. As the Company had distributed a portion of these securities and could have distributed the remainder of these securities to shareholders rather than holding to maturity, in accordance with IFRS 9 *Financial Instruments*, the securities were measured at fair value with the change in fair value presented as unrealized gain on short-term investments within other comprehensive income on the accompanying statements of comprehensive income. In May 2023, the US Treasury bills and notes reached maturity. The realized gain has been recorded within finance income on the accompanying statements of comprehensive income.

In thousands of US dollar	**Six months ended June 30, 2023 (unaudited)**	**Year ended December 31, 2022 (audited)**
Short-term investments		
Beginning balance…..	6,667	-
Maturity of 1-year US Treasury securities….........	(6,779)	117,680
Distribution of 1-year US Treasury securities….....	-	(110,821)
Realized gain on securities matured….................	127	(207)
Change in fair value of securities…......................	(15)	15
Balance at period end………................................	**-**	**6,667**

(11) Cash and Cash Equivalents, and Restricted Cash

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Cash and cash equivalents		
Cash in bank accounts and on hand..................	5,798	637
Cash in money market investment accounts.......	51,271	14,770
Cash equivalents (US Treasury Securities with 3 month maturity)...	59,433	95,786
	116,502	**111,193**
Restricted cash		
Restricted cash...	10,462	10,549
	10,462	**10,549**

See note 14 for information on the restricted cash balance.

In 2023 and 2022, the Company purchased US Treasury bills with original maturities of three months or less. These securities had a fair value of $59.4 million and $95.8 million at June 30, 2023 and December 31, 2022, respectively, 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.

(12) Equity

During the six months ended June 30, 2022, the Company did not receive any cash contributions from, or make any cash distributions to, its Class A or Class B common shareholders. During the six months ended June 30, 2023, the Company made cash distributions to its Class A and B common shareholders of $4.1 million and $1.9 million, respectively, for a total of $6.0 million in distributions. The Company did not receive any cash contributions from its Class A or Class B common shareholders.

For the six months ended June 30, 2023, net profit attributable to the Company's Class A and Class B common shareholders was $5.5 million and $2.6 million, respectively. 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.

(13) Trade and Other Payables

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Trade and other payables		
Accounts payable…..........….................................	13,180	24,761
Revenues payable…...........….............................	18,481	9,452
Transportation payable…..........…........................	1,072	2,598
Accrued expenses		
Compensation payable…...................................	3,337	6,324
Accrued interest…...	3,881	3,886
PSC obligations…..	20,570	20,399
Other accrued expenses….................................	581	486
	61,102	**67,906**

Accounts payable comprise invoices due to suppliers and are normally settled within 30 days. Compensation payable consists primarily of bonuses payable, which are settled subsequent to the date of the financial statements. Accrued interest relates to debt payable (see note 14). Other accrued expenses primarily include payables to related affiliates for general and administrative services (see note 19).

(14) Debt and Finance Income/Expenses

On May 5, 2020, the Company closed on a nine-year loan of $49 million from the United States International Development Finance Corporation (DFC). 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 $5.0 million in a debt service reserve for the loan included as restricted cash on the accompanying statement of financial position at June 30, 2023.

On March 6, 2019, the Company closed on a five-year unsecured Nordic 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, 2023.

At June 30, 2023 and December 31, 2022, total current and non-current debt, net of debt issuance costs and fees, consisted of the following:

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Debt, net of issuance costs and fees - current		
Debt payable - current..	107,000	7,000
Debt issuance fees..	(2,500)	-
Debt issuance costs..	(463)	-
Amortization of debt issuance costs and fees.......	2,568	-
	106,605	**7,000**
Debt, net of issuance costs and fees - non-current		
Debt payable - non-current.................................	35,000	138,500
Debt issuance fees..	(441)	(2,941)
Debt issuance costs..	(773)	(1,236)
Amortization of debt issuance costs and fees.......	667	2,843
	34,453	**137,166**

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

In thousands of US dollar	
2023	3,500
2024	107,000
2025	7,000
2026	7,000
Thereafter	17,500
	142,000

At June 30, 2023 and December 31, 2022, accrued interest of $3.9 million was included within Trade and Other Payables on the accompanying statement of financial position (see note 13). For the six months ended June 30, 2023 and 2022, finance income and finance expense consisted of the following:

In thousands of US dollar	**Six months ended June 30, 2023 (unaudited)**	**Six months ended June 30, 2022 (unaudited)**
Finance income		
Interest income from money market account	1,101	161
Interest income from US Treasury securities	1,460	8
Realized gain on short-term investments	127	-
Change in interest receivable	137	81
	2,825	**250**
Finance expense		
Cash payments for interest	(7,015)	(7,163)
Change in interest accrual	5	(25)
Amortization of debt issuance costs and fees	(392)	(404)
Interest expense on leases	(10)	(15)
Transfer to capitalized interest	-	1,204
	(7,412)	**(6,403)**

(15) Lease Liabilities

As of June 30, 2023, current lease liabilities of $0.2 million and non-current lease liabilities of $0.2 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, 2022, current lease liabilities of $0.3 million and non-current lease liabilities of $0.1 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, 2023 (unaudited)**	**Year ended December 31, 2022 (audited)**
Lease liabilities		
Balance at January 1	417	685
Remeasurement of lease liability	118	-
Lease payments	(149)	(295)
Interest expense	10	27
Balance at period end	**396**	**417**
Current portion (within one year)	202	286
Non-current portion (two to five years)	194	131
	396	**417**

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, 2023 and 2022, respectively, and were recognized within general and administrative expenses.

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Lease maturity analysis		
Year 1	83	164
Year 2	-	253
Year 3	313	-
Year 4	-	-
Year 5	-	-
	396	**417**
Amounts payable under leases		
Within one year	217	299
Two to five years	202	135
	419	**434**
Less future interest charges	(23)	(17)
Less future remeasurement of lease liability	-	-
Net present value of lease obligations	**396**	**417**

(16) Decommissioning Provisions

In thousands of US dollar	**Six months ended June 30, 2023 (unaudited)**	**Year ended December 31, 2022 (audited)**
Decommissioning provisions		
Balance at January 1	15,225	8,939
Additions	-	5,812
Accretion expense	291	474
Balance at period end	**15,516**	**15,225**

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 asset.

(17) Financial Instruments – Fair Value

In thousands of US dollar	**June 30, 2023 (unaudited)**	**December 31, 2022 (audited)**
Financial assets		
Cash and cash equivalents	116,502	111,193
Restricted cash	10,462	10,549
Trade and other receivables	173,621	182,414
Affiliate receivables	651	366
Short-term investments	-	6,667
	301,236	**311,189**
Financial liabilities		
Trade and other payables	61,102	67,906
Current and non-current debt - bonds	96,904	97,293
Current and non-current debt - loans	42,000	45,500
	200,006	**210,699**

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 10) are marked to fair value using quoted prices that are classified as Level 1 in the fair value hierarchy at the end of each reporting period.

Fair values of debt:

The Company obtained quoted prices for its $100 million bond (see note 14), noting that the bond was trading at 96.904 percent of par and 97.293 percent of par at June 30, 2023 and December 31, 2022, respectively. Therefore, the fair value of the bond approximated $96.9 million and $97.3 million at June 30, 2023 and December 31, 2022, respectively. The Company considers the carrying value of its DFC loan (see note 14) to approximate fair value at June 30, 2023 and December 31, 2022. 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.

(18) Commitments and Contingencies

The Company is not currently a party to any litigation that it believes would have a materially adverse effect on the Group's business, financial condition, results of operations, or liquidity, other than the 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. 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, were expensed within operating expenses for the periods during which the payments were made. The fourth defined production threshold was reached in September 2022 when production from the contract area reached a cumulative amount of 50 million barrels of crude oil. The $20 million owed by the Contractor to the KRG remains accrued as of June 30, 2023 within trade and other payables in the accompanying statement of financial position (see note 13). The Company's $15.5 million share of the $20 million accrued was expensed in September 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.

(19) Related Party Transactions

On a periodic basis, net amounts due to and from affiliates under common control are settled through cash payments and cash receipts from affiliates. During the six months ended June 30, 2023 and 2022, the Company paid general and administrative expenses of $0.8 million and $0.6 million, respectively, to related entities for management and administrative services provided to the Company and rent. At June 30, 2023 and December 31, 2022, there was a net related party receivable outstanding of $0.7 million and $0.4 million, respectively, as affiliate receivables on the accompanying statements of financial position.

(20) Oil Sales Receivables

Effective January 2022, the KRG implemented a price adjustment that was not in accordance with the sales contract in order to account for increased export pipeline tariffs incurred by the KRG. The $11.7 million shortfall in payments relates to sales originating in 2021 and 2022. $11.7 million was recorded as impairment of receivables, and $9.1 million was expensed to the Company as of June 30, 2022. The remaining $2.6 million relates to the co-venturer's share. An additional $0.6 million was recorded as impairment of receivables in the second half of 2022. The total impairment allowance of $12.3 million remains recorded as of June 30, 2023.

In September 2022, the Company entered into a new sales contract incorporating a new pricing benchmark. Under the new sales contract, the Company's crude oil sales price is based upon the monthly average price achieved for Kurdistan oil exports marketed by the KRG, adjusted for quality differences between the Kurdistan export blend and Sarsang crude sold to the KRG. The Company began recording revenue in accordance with the new sales contract in September 2022.

Since the closure of the Iraq-Turkey pipeline, the KRG has made no further payments to HKN for outstanding oil sales receivables. The Company assessed these receivables for impairment as of June 30, 2023 and recorded a $23.6 million allowance for the Company's net share of the expected credit loss. See note 2(e)(ii) and note 9 for further discussion.

(21) Subsequent Events

In August 2023, the Company purchased its own outstanding Nordic bonds with a par value of $9 million.

On August 21, 2023, the Company made a $30.0 million cash distribution to its Class A and Class B common shareholders.

The Company has evaluated subsequent events from the statement of financial position date through August 21, 2023, the date at which the financial statements were authorized to be issued and determined that there are no other items to disclose.