

26 February 2020

HKN Energy, Ltd.

HKN Energy, Ltd. (“HKN”) presents an operating update for the year ended 31 December 2019. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

Operational Highlights

- Production update:
 - Sarsang cumulative gross production reached 22 million barrels in 2019
 - Peak production (gross) surpassed 30,000 bopd during Q4 2019
 - Average production (gross) of 23,300 bopd for 2019 was an increase of 6,000 bopd over 2018
 - Operatorship and ownership of both Swara Tika facilities transitioned successfully to HKN during 2018 and 2019; EST facility transition planned for 2020
- Drilling update:
 - Swara Tika B2 well drilled and completed in 2019
 - Triassic KCC reservoir tested 38 API oil at rates of 7,000+ bopd
 - A 37-meter-thick dolomite section within the lower KCC anhydrite was also stimulated and flowed 36 API oil at a rate up to ~7,500 bopd on 2” choke; this was HKN’s first testing in an anhydrite section
 - Four zones in the Triassic KCB reservoir were stimulated and flowed 36 API oil at rates from approximately 4,000 to 9,000 bopd on 2” choke
 - EST-A1 well successfully completed in Triassic KCB reservoir and placed on production
 - ST-A1 well spud in late November and completed in January 2020
- Facilities update:
 - Construction of Pad B 25k bopd facility began in 2019 with approximately one-third complete to date
- Seismic update:
 - Approximately 50% of the Swara Tika 3D seismic program has been completed with processing underway

Financial Highlights

- Received net cash proceeds from oil sales of \$157 million in 2019
 - Oil sales payments net to HKN of \$23 million expected in the last 2 months of 2019 were received in January 2020
 - 31 January 2020 cash balance of \$85 million
- Financing update:
 - \$100 million Nordic bond closed in March
 - \$49 million United States International Development Finance Corporation (“DFC”, formerly OPIC) loan commitment letter executed in December

Summary of Results

		2018 PF ⁽¹⁾ (unaudited)	2019 (unaudited)
Production (gross)	Bopd	17,323	23,324
Production (net) ⁽²⁾	Bopd	10,740	14,461
Revenue	USDm	\$ 154,873	\$ 189,913
EBITDA ⁽³⁾	USDm	\$ 101,778	\$ 121,789
Operating cash flow	USDm	\$ 82,204	\$ 83,416
Capex	USDm	\$ (52,783)	\$ (130,316)
Free cash flow ⁽⁴⁾	USDm	\$ 29,421	\$ (46,900)
Cash at 31 December	USDm	\$ 32,715	\$ 83,071
Debt at 31 December ⁽⁵⁾	USDm	\$ -	\$ 100,000

Notes:

- (1) Pro forma 2018 figures include acquisition of 20% PSC interest from beginning of year and are unaudited.
- (2) Net based on 62% PSC interest.
- (3) EBITDA is net income/(loss) adjusted for the add back of net interest expense, depletion, depreciation and amortization.
- (4) Free Cash Flow is net cash generated from operating activities less capex.
- (5) Face value of debt.

Outlook

- 2020 production guidance of 26k-29k bopd (gross)
- Capex guidance of \$120-\$160 million (net to HKN) for the 2020 capital program focused on facilities & drilling
 - Facility construction and drilling program on target for first oil from new 25k bopd facility on Swara Tika by Q1 2021
- The KRG continues work on the 21-kilometer pipeline to the Sarsang Block boundary; anticipate tie-in of 2 Swara Tika facilities in 2nd half of 2020
- Expected close of the DFC loan near end of Q1 with first draw in Q2

Information regarding the next release will be available on the Company's website, www.hknenergy.com

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Disclaimer

This announcement contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil & gas exploration and production business. As the expectations reflected herein are believed to be reasonable in light of the information available to Company at this time, the actual outcome may be materially different due to factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. For these reasons, no reliance may be placed on the figures contained in such forward looking statements.

EBITDA is a supplemental non-GAAP financial measure. We believe EBITDA and similar measures are useful to investors because they are frequently used by analysts and investors to evaluate companies in the oil and gas sector. Because these measures exclude some, but not all, items that affect net income, these measures as presented by us may not be comparable to similarly titled measures of other companies.

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Balance Sheets

December 31, 2019 and December 31, 2018

(Unaudited)

Assets	December 31, 2019	December 31, 2018
Current assets:		
Cash and cash equivalents	\$ 83,071,120	32,715,348
Accounts receivable	110,593,880	63,162,589
Interest receivable	114,404	—
Prepaid expenses	1,215,616	690,478
Inventory	13,538,109	11,686,830
Related party receivable	33,713	27,251
Total current assets	208,566,842	108,282,496
Properties and equipment, at cost – full cost method:		
Evaluated properties, subject to depletion	568,131,513	432,585,344
Accumulated depletion	(121,989,261)	(61,172,228)
	446,142,252	371,413,116
Other property and equipment	7,114,311	5,146,098
Accumulated depreciation	(3,712,640)	(2,925,990)
	3,401,671	2,220,108
Total assets	\$ 658,110,765	481,915,720
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	\$ 53,283,309	41,195,900
Accrued interest	3,483,333	—
Revenues payable	22,372,773	12,863,557
Total current liabilities	79,139,415	54,059,457
Bonds payable, net of debt issuance costs and fees	97,713,141	—
Future abandonment cost	4,628,978	3,819,684
Total liabilities	181,481,534	57,879,141
Common stock, \$0.01 par value 5,000,000 shares authorized, 33,250 Class A shares issued and outstanding at December 31, 2019 and December 31, 2018, and	333	333
15,830 Class B shares issued and outstanding at December 31, 2019 and December 31, 2018	158	158
Additional paid-in capital	540,198,469	540,198,469
Accumulated deficit	(63,569,729)	(116,162,381)
Total shareholders' equity	476,629,231	424,036,579
Total liabilities and shareholders' equity	\$ 658,110,765	481,915,720

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Statements of Operations

Twelve months ended December 31, 2019 and 2018

(Unaudited)

	<u>2019</u>	<u>2018</u>
Revenues:		
Oil sales	\$ 189,912,614	122,080,788
Total revenues	<u>189,912,614</u>	<u>122,080,788</u>
Expenses:		
Operating expenses	41,111,146	25,710,541
Oil transportation expenses	7,381,802	5,711,800
Depletion, depreciation and amortization	61,778,263	31,873,946
General and administrative	<u>19,504,799</u>	<u>11,884,646</u>
Total expenses	<u>129,776,010</u>	<u>75,180,933</u>
Operating income	<u>60,136,604</u>	<u>46,899,855</u>
Other expenses:		
Interest expense, net	(7,417,944)	—
Other expenses	<u>(126,008)</u>	<u>(43,757)</u>
Total other expense	<u>(7,543,952)</u>	<u>(43,757)</u>
Net income	<u>\$ 52,592,652</u>	<u>46,856,098</u>

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Statement of Shareholders' Equity

Twelve months ended December 31, 2019

(Unaudited)

	Common stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amounts			
Balance – January 1, 2018	33,250	333	488,972,156	(163,018,479)	325,954,010
Contributions from Class A shareholders	—	—	1,071,658	—	1,071,658
Initial contribution of assets from Class B shareholders	—	—	3,169,103	—	3,169,103
Issuance of shares to Class B shareholders	15,830	158	47,111,080	—	47,111,238
Share-based compensation	—	—	(125,528)	—	(125,528)
Net income allocated to Class A shareholders	—	—	—	40,842,877	40,842,877
Net income allocated to Class B shareholders	—	—	—	6,013,221	6,013,221
Balance – December 31, 2018	49,080	\$ 491	540,198,469	(116,162,381)	424,036,579
Net income allocated to Class A shareholders	—	—	—	35,629,701	35,629,701
Net income allocated to Class B shareholders	—	—	—	16,962,951	16,962,951
Balance – December 31, 2019	49,080	\$ 491	540,198,469	(63,569,729)	476,629,231

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Statements of Cash Flows

Twelve months ended December 31, 2019 and 2018

(Unaudited)

	2019	2018
Operating activities:		
Net income	\$ 52,592,652	46,856,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	61,778,263	31,873,946
Amortization of debt issuance costs and fees	457,371	—
Share-based compensation expense	—	(53,798)
Settlement of share-based compensation	—	(71,730)
Change in operating assets and liabilities:		
Accounts receivable	(47,431,291)	(28,942,212)
Interest receivable	(114,404)	—
Related party accounts	(6,462)	70,334
Prepaid expenses	(525,138)	(326,257)
Accounts payable and accrued expenses	3,672,143	11,871,158
Accrued interest	3,483,333	—
Revenues payable	9,509,216	(2,121,304)
Net cash provided by operating activities	83,415,683	59,156,235
Investing activities:		
Development of oil and gas properties	(127,779,106)	(42,597,660)
Purchases of other property and equipment	(2,536,575)	(1,526,970)
Purchase of Marathon interest	—	(31,268,683)
Net cash used in investing activities	(130,315,681)	(75,393,313)
Financing activities:		
Contributions from Class A shareholders	—	1,071,658
Contributions from Class B shareholders	—	47,111,238
Proceeds from issuance of bonds, net of fees	97,500,000	—
Debt issuance costs	(244,230)	—
Net cash provided by financing activities	97,255,770	48,182,896
Increase in cash and cash equivalents	50,355,772	31,945,818
Cash and cash equivalents – beginning of period	32,715,348	769,530
Cash and cash equivalents – end of period	\$ 83,071,120	32,715,348
Noncash capital expenditures in liabilities	\$ 24,902,035	16,828,799