

28 May 2020

HKN Energy, Ltd.

HKN Energy, Ltd. (“HKN”) presents an operating and financial update for the quarter ended 31 March 2020. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

Highlights

- Revenue for the quarter decreased 24% from 2019, primarily due to a 20% reduction in Brent price as compared to prior year.
 - Received cash proceeds from oil sales of \$22.9 million during Q1 2020 with an additional \$26.1 million in cash received since Q1 for October 2019 and March and April 2020 oil sales. HKN’s net receivables for November 2019 to February 2020 totaling \$68.6 million remain unpaid.
- Q1 production decreased by 2% from 2019 and was below our previous 2020 production guidance of 26k to 29k bopd. Production during the quarter was impacted by:
 - 9 days of severe freezing weather in February
 - A 7-day shut-down of our Pad B facility in mid-March to tie-in the ST-B2 well
 - Damage to a flowline from a landslide in late February, which shut down production from EST-A1 well
 - Shut in of East Swara Tika facility in late March
- Sarsang 25 million barrel production milestone achieved in April
 - Payment of production bonus of \$7.75 million (net to HKN) deferred until settlement of outstanding receivable balance with KRG
- We completed the ST-A1 well in January 2020 and flowed the well at ~6500 bopd from the Triassic Kurra Chine C interval.
- As previously disclosed, the global COVID-19 outbreak has impacted operations on the Sarsang Block.
 - We have halted drilling of the Swara Tika-B3 well after reaching a safe stage and set casing directly above producing reservoirs; we have also postponed the remainder of our 2020 drilling program.
 - Completion of the new 25k bopd oil processing facility will be delayed beyond Q1 2021. HKN continues to work with our engineering, procurement and construction contractor to revise the project and payment schedule, and ongoing construction activity has been limited.
 - We stopped production at the East Swara Tika facility on 25 March to ensure sufficient experienced personnel are available in country to safely maintain full production at the two Swara Tika facilities.
- Operating cash flow during the quarter was lower than in 2019 due primarily to the impact of oil price, payments of interest and changes in working capital.
- HKN is pleased to announce the closing of a \$49 million loan with U.S. International Development Finance Corporation (“DFC”) in early May. The investment is a strong signal of support by the US government for Iraq’s energy sector. The loan provides financing for HKN’s ongoing project to build a new 25k bopd facility for the Swara Tika field, which will increase gross production capacity from the Sarsang Block to over 55k bopd.

- The first disbursement of \$37.5 million was provided on May 27th.
- Timing for final disbursement of \$11.5 million will depend on a revised schedule for the 25k bopd facility.
- Loan matures May 15, 2029 with first amortization payment scheduled for August 15, 2022, and interest-only quarterly payments until that date.
- Cash balance at 27 May 2020 of \$99.9 million, including restricted cash of \$6.7 million.

Summary of Results

		Q1 2019 (unaudited)	Q1 2020 (unaudited)
Production (gross)	Bopd	23,829	23,191
Production (net) ⁽¹⁾	Bopd	14,774	14,379
Revenue	USDm	\$ 46,893	\$ 35,744
EBITDA ⁽²⁾	USDm	\$ 30,062	\$ 18,353
Operating cash flow	USDm	\$ 24,985	\$ 2,951
Capex	USDm	\$ (31,579)	\$ (31,410)
Free cash flow ⁽³⁾	USDm	\$ (6,594)	\$ (28,459)
Cash at 31 March	USDm	\$ 123,487	\$ 54,613
Debt at 31 March ⁽⁴⁾	USDm	\$ 100,000	\$ 100,000

Notes:

- (1) Net based on 62% PSC interest.
- (2) EBITDA is operating profit/(loss) adjusted for the add back of interest, depreciation and depletion.
- (3) Free Cash Flow is net cash generated from operating activities less cash outflow due to purchase of property, plant & equipment.
- (4) Face value of debt.

Outlook

- Facility construction timeline for new 25k bopd facility on Swara Tika is currently under review and we expect to have a revised timeline in the near future.
- Drilling program to complete Swara Tika wells will restart in time to commission the new 25k bopd facility.
- We do not have an estimated timeline from the government for completion of the pipeline to the Sarsang block boundary.
- We are revising our production guidance from 26k-29k bopd (gross) issued in January 2020 to 21k-24k bopd (gross) for 2020. This reflects the impact of shutting-in the EST facility and deferring the tie-in of the ST-A1 well to the A Pad production facility.
- Based on the delay in the 25k bopd facility and related drilling program, capex guidance of \$120-\$160 million for 2020 has been revised downward to \$40-\$60 million for 2020.

- To protect against the impact of a future significant drop in oil price, HKN has recently purchased put contracts at a \$25 strike price to cover 200,000 barrels of oil per month for the period from June to December 2020.

The next financial release is scheduled for late August 2020. That release will include the financial results for the semi-annual period ending on 30 June 2020. The semi-annual financial release will be the first release under IFRS rather than US GAAP.

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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.