

27 August 2020

HKN Energy, Ltd.

HKN Energy, Ltd. (“HKN”) presents an operating and financial update for the six months ended 30 June 2020. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

Highlights

- Revenue for the first half of 2020 decreased 46% from the comparable period in 2019, primarily due to a 44% reduction in realized oil price as compared to prior year.
 - Received cash proceeds from oil sales of \$54.7 million during 1H 2020 with an additional \$9.0 million in cash received since June.
 - The KRG has communicated its commitment to future payment of \$68.6 million due for oil sales and reimbursement of transportation costs from November 2019 to February 2020. HKN continues to be in correspondence with the KRG on this matter; however, no concrete payment plan has yet been agreed.
- First half 2020 production decreased by 3% from the comparable period in 2019, but remained in line with our latest 2020 production guidance of 21k to 24k bopd. Production from our two Swara Tika facilities was steady during Q2; the East Swara Tika facility remains shut in at this time.
- Sarsang cumulative production reached 26.4 million barrels as of June 30
 - Payment of net \$7.75 million bonus to KRG on reaching 25 million barrel gross production milestone in April has been deferred until settlement of outstanding receivable balance with KRG.
- The global COVID-19 outbreak continued to impact operations on the Sarsang Block during Q2. HKN took further actions during the quarter to secure our existing investments and maintain steady production while ensuring the safety of our associates. The more recent stability of oil prices and the easing of travel and quarantine restrictions have allowed HKN to resume some activities and initiatives, including:
 - Tie in of the ST-A1 well, which will fill the Pad A facility and increase production by approximately 2k bopd by the end of Q1 2021.
 - Restart the EST facility and increase production by up to 5k bopd by year end 2020.
- Cash balance at 31 July 2020 of \$84.9 million, including restricted cash of \$6.7 million. HKN’s cash position includes the net proceeds from our first draw of the U.S. International Development Finance Corporation (“DFC”) loan in May 2020.

Summary of Results ⁽⁵⁾

		1H 2019 (unaudited)	1H 2020 (unaudited)
Production (gross)	Bopd	23,578	22,857
Production (net) ⁽¹⁾	Bopd	14,618	14,171
Revenue	USDm	\$ 98,118	\$ 53,358
EBITDA ⁽²⁾	USDm	\$ 64,871	\$ 23,197
Operating cash flow	USDm	\$ 59,124	\$ 15,726
Capex	USDm	\$ (60,500)	\$ (47,733)
Free cash flow ⁽³⁾	USDm	\$ (1,376)	\$ (32,007)
Cash at 30 June	USDm	\$ 128,597	\$ 80,570
Restricted Cash at 30 June	USDm	\$ -	\$ 6,708
Debt at 30 June ⁽⁴⁾	USDm	\$ 100,000	\$ 137,500

Notes:

- (1) Net based on 62% PSC interest.
- (2) EBITDA is operating profit/(loss) adjusted for the add back of interest, depreciation and depletion, loss on derivatives, and impairment.
- (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.
- (5) HKN has opted to delay adoption of IFRS; 2020 financial reporting continues under US GAAP

Outlook

- Construction on the new 25k bopd oil processing facility remains limited to protecting existing investments and progressing critical work paths. HKN continues to work with our engineering, procurement and construction contractor to update the project schedule.
 - We expect first oil in 2022, but a more precise and confident estimate depends on updates to the project schedule, any further impact or delays in supply chain due to COVID 19, and a restart of the drilling program required to fill the facility (which is dependent, among other things, on progress in collecting outstanding receivables from the KRG).
- We continue to evaluate timing of tie in to the KRG export pipeline currently under construction.
- Production guidance remains unchanged at 21k-24k bopd (gross) for 2020.
- With the resumption of the activities described above, HKN is increasing Capex guidance from \$40-\$60 million to \$55-\$70 million (net to HKN) for 2020.

The next update is scheduled for November 2020.

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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.