

29 January 2021

HKN Energy Ltd.
Report on Payments to Governments for 2020

This report sets out details of the payments made to governments by HKN Energy Ltd. ("HKN Energy") for the year ended 31 December 2020.

Governments

All of the payments made to the Kurdistan Region of Iraq ('KRI') have been made to the Ministry of Natural Resources of the Kurdistan Regional Government ('KRG').

Production entitlements

Production entitlements are the host government's share of production during the reporting period from projects operated by HKN Energy. The figures reported have been produced on an entitlement basis rather than on a sales basis. Production entitlements are paid in-kind and the monetary value disclosed is derived from management's calculation of revenue from the field.

Royalties

Royalties represent royalties paid in-kind to governments during the year for the extraction of oil. The terms of the Royalties are described within the Sarsang Production Sharing Contract. Royalties have been calculated on the same barrels of oil as production entitlements.

PAYMENTS TO GOVERNMENTS - 2020	
Country	KRI ¹
Production entitlement (bbls)	3,592,794
Royalties in kind (bbls)	902,513
Total (bbls)	4,495,307
Value of Government Royalties (\$ million)	31.573
Value of Production entitlements (\$ million)	116.618
Capacity Building Payments (\$ million) ²	7.029
Taxes in-kind (\$ million) ³	1.407
License fees in-kind (\$ million) ⁴	8.854
Total (\$ million)	165.481

Notes:

- 1 All of the crude oil produced by HKN Energy was sold to the KRG, who subsequently markets the crude oil to international buyers. All proceeds of sale were received by or on behalf of the KRG, out of which the KRG then made payment for cost oil and profit oil in accordance with the Sarsang PSC to HKN Energy, in exchange for the crude oil delivered to the KRG. Under these arrangements, payments were made by or on behalf of the KRG to HKN Energy, rather than by HKN Energy to the KRG. For the purposes of this report, we have characterized the value of the KRG's production entitlements under the Sarsang PSC (for which the KRG receives payment directly from the market) as a payment to the KRG.
- 2 The capacity building payments were paid in kind, as the value of the capacity building payments were deducted from HKN's crude oil sales proceeds.
- 3 Taxes consist of road fees charged for production exports transported by tanker truck. The road fees were paid in kind, as the value of the road fees were deducted from HKN's crude oil sales proceeds.
- 4 No cash payments for license fees were made by HKN Energy to the Kurdistan Regional Government. Instead, the value of these fees have been accrued for payment.