

HKN Energy Ltd.

Operational & Corporate Update

HKN Energy Ltd. (“HKN”) presents an operating and financial update for the three months ended March 31, 2023. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

Q1 2023 Update and Outlook

- 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 Baghdad and Erbil work through political and logistical issues for a restart of exports of Kurdistan crude.
 - HKN temporarily halted production from all facilities on April 19, once we filled onsite and offsite storage. Over 600k barrels of oil (gross) remain in storage.
 - We restarted some production shortly thereafter and began selling to local refineries on April 25. Since then, we have sold an average of 22k bopd (gross). We expect to sell between 25k and 50k bopd (gross) locally until pipeline exports resume.
 - Prices for crude oil sales to local refineries vary but are in line with the local market.
- Revenue decreased 17.9% for the first quarter 2023 from comparable periods in 2022. The decrease is due to a 30.5% decrease in realized oil price, partially offset by an 18.2% increase in gross production.
 - The discount to Brent of our realized oil price was \$14.99 for the first quarter of 2023, compared to \$6.86 in the comparable period of 2022.
 - First quarter production was 18.2% higher than the prior year due to the commissioning of our new production facility. Gross production in the first quarter of 2023 averaged 35.0k bopd, compared to 29.6k in the first quarter of 2022.
- The recently drilled ST B8 well was tied-in to the new production facility and began producing in March 2023. Sarsang production levels increased to over 44k bopd (gross) just prior to the shut-in of the Iraq-Turkey pipeline.
- Capex spend was \$20.7 million (net to HKN) in the first quarter of 2023.
 - We drilled the ST A2 well on Pad A in February 2023. First production from this well has been delayed until crude oil exports resume and we have reasonable assurances on oil sales payments.
 - The Pad A saltwater disposal well was drilled in March 2023, which will improve our ability to handle water once it is connected to the Pad A facility.
- HKN received two payments for oil sales during the first quarter of 2023, with total cash proceeds of \$58.3 million (net to HKN). We have not yet received payment for oil sales for the final three months of 2022 or the first three months of 2023.
- Cash balance plus short-term U.S. Treasury investments on March 31, 2023 was \$138.1 million, including restricted cash of \$10.6 million. Our cash plus short-term U.S. Treasury investments on April 30, 2023 was \$126.8 million.

- We have reduced planned CAPEX for the remainder of 2023 by approximately 75% and are reviewing opportunities for further cuts. We will provide updated guidance on full year 2023 CAPEX once we have better clarity on collection of receivables in arrears and payment for future oil sales when crude oil exports resume.
- We have begun reducing OPEX and G&A spending aggressively and will continue to optimize our cost structure.
- Previous guidance on 2023 production is suspended. We are not able to provide an estimate of annual production given the uncertainties around timing for the resumption of crude oil exports from Kurdistan and around oil sales payments.

Summary of Results – HKN Energy Ltd.

		Q1 2023 (unaudited)	Q1 2022 (unaudited)
Production (gross)	Bopd	35,031	29,639
Production (net) ⁽¹⁾	Bopd	21,719	18,376
Revenue	USDm	\$ 81,284	\$ 98,986
Operating cash flow	USDm	\$ 37,204	\$ 47,956
Capex	USDm	\$ (20,749)	\$ (25,000)
Free cash flow ⁽²⁾	USDm	\$ 16,455	\$ 22,956
Cash (incl. restricted) at 31 March	USDm	\$ 131,329	\$ 201,358
Short Term Investments at 31 March	USDm	\$ 6,742	\$ -
Restricted cash at 31 March	USDm	\$ 10,606	\$ 8,963
Debt at 31 March ⁽³⁾	USDm	\$ 143,750	\$ 149,000

Notes:

- (1) Net based on 62% PSC interest.
- (2) Free Cash Flow is net cash generated from operating activities less cash outflow for capital expenditure. Free Cash Flow is before debt costs and dividends and excludes the purchase of short-term investments.
- (3) Face value of debt.

Supplemental Information for unconsolidated HKN Energy III, Ltd.⁽¹⁾

		3 Months Ended 2023 (unaudited)	3 Months Ended 2022 (unaudited)
Cash (incl. restricted) at 31 March	USDm	\$ 22,225	\$ 20,864
Restricted cash at 31 March	USDm	\$ 12,116	\$ 18,000
Debt at 31 March ⁽²⁾	USDm	\$ 100,000	\$ 100,000

Notes:

- (1) For legal organizational chart please refer to <https://www.hknenergy.com/investors/legal-organizational-chart/>
- (2) Face value of debt.

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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.