7 August 2023

HKN Energy Ltd. (HKN) provides the following update on operations, financial position, and recent events.

Iraq Budget Law

- Kurdistan Regional Government (KRG) officials have expressed their view to industry participants, including HKN, that the recently enacted Iraq budget law will not provide enough funding for the KRG to meet its financial obligations, including those contractual obligations under the Production Sharing Contracts (PSCs).
- Earlier this week the KRG received partial funding of $457 million from the federal government of Iraq. A KRG spokesman commented that the KRG needs $698 million to make its required monthly payments for government salaries and pensions.
- The Iraq budget law requires the KRG to deliver a minimum of 400k bopd to the Government of Iraq (GOI) in return for routine monthly monetary transfers from the GOI to the KRG. Such transfers have historically been based on a percentage of actual expenditure and not tied to oil sales volumes or oil price.
- The KRG has appealed to the Iraqi Supreme Court claiming that several articles in the Iraq budget law are unlawful and unconstitutional.

Iraq Turkey Pipeline (ITP)

- HKN has little confidence that the ITP will open soon.
- If and when the ITP opens, it is unclear whether the KRG could provide commercial assurances to oil producers sufficient to achieve a production level of at least 400k bopd; the impact to KRG monthly transfers from the GOI is unclear if the KRG fails to deliver the minimum volume commitment.

HKN Operations

- HKN has outstanding overdue invoices totaling $190.7 million for oil sold to the KRG during the 6 months from October 2022 to March 2023; the last payment received was on March 3, 2023 for September 2022 production.
  - Despite repeated requests, HKN has received no indication from the KRG as to how or when the KRG can and will repay these arrears.
- HKN is currently limited to the local sales market in Kurdistan at a net-back price below $40/barrel (Sarsang oil quality is roughly equivalent to Brent crude quality).
  - During the 2nd quarter, HKN sold an average of 13.7k bopd at an average net back price of $41.47/bbl, generating revenue and cash payments of $19.9 million, net to HKN.
  - The domestic market for crude oil sales is inconsistent, varying week-to-week. As such, future local market sales (volumes and prices) are unpredictable.
- HKN continues to take actions to preserve capital.
  - We have drastically reduced our CAPEX commitments for the remainder of 2023 and beyond. We expect CAPEX for the second half of 2023 to be approximately $10 million, net to HKN.
  - We have also reduced OPEX significantly, primarily by consolidating production at two facilities.
  - Further, we have reduced G&A costs across the company mostly via a reduction in personnel.

Financial Update as of June 30, 2023

- Cash balance of $127.0 million, including restricted cash of $10.5 million.
- Trade and Other Receivables, which include the amounts for oil sold to the KRG, were $197.2 million, before any provision for credit risk on overdue invoices.
- Trade and Other Payables were $61.1 million.
- Oil in storage at offsite facilities of 471 thousand barrels.
- Debt was $142 million, including $100 million Nordic Bond and $42 million loan balance to DFC.
- CAPEX during the first 6 months of 2023 was $39.1 million.

HKN Energy III, Ltd. Financial Update as of June 30, 2023

- Cash was $22.3 million, including $12.0 million of restricted cash.
- Debt was $100 million.

In mid-August, HKN will provide its 6-month management update and publish interim financial statements as of June 30, 2023.