

## HKN Energy Ltd.

### Operational & Corporate Update

HKN Energy Ltd. (“HKN”) presents an operating and financial update for the six months ended June 30, 2023. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

#### Kurdistan Update

- The Iraq-Turkey pipeline (ITP), which was shut in on March 25, 2023, remains closed.
  - HKN is not optimistic that negotiations between Iraq and Turkey will lead to re-opening the pipeline in the near-term.
  - HKN does not intend to resume pipeline exports without line of sight to, and a commitment for, payment under our existing contract.
- Government of Iraq (GOI) officials currently believe that the recently passed Iraqi budget law prohibits cost reimbursement to the Kurdistan Regional Government (KRG) in excess of the average cost of production per barrel in federal Iraq (excluding the Kurdistan Region of Iraq (KRI)). Such a level of reimbursement would be materially insufficient to pay the actual costs of International Oil Companies (IOCs) operating in the KRI. KRI IOCs are contractually entitled to full cost reimbursement in accordance with the existing Production Sharing Contracts (PSCs).
- It appears that some factions in the GOI seek to gain control of the oil sector in the KRI and are attempting to do so through the Iraqi budget law and through current negotiations on the draft oil and gas law.
  - The GOI either does not understand our contractual terms or refuses to acknowledge our rights, including fiscal stability protections, and has not expressed any intent to take on the existing contractual obligations of the KRG.
  - As a result, we don’t currently see a clear path for HKN to sell oil at world market prices in the near term.
- HKN believes that the situation in Kurdistan will remain challenging until:
  - A change in the Baghdad-Turkey political dynamic results in a restart of the pipeline; and,
  - The KRG and GOI reach a durable arrangement which ensures existing contractual terms are honored with respect to cost recovery and entitlement oil. HKN does not believe such an arrangement is imminent.

#### Distributions and Bond Repurchase

- In May 2023, HKN distributed \$6.0 million; these funds were used by HKN Energy III to make its semi-annual interest payment to bondholders.
- On August 21, 2023, HKN distributed \$30.0 million. Following the distribution, HKN's cash balance was \$109.0 million.

- During August 2023, HKN repurchased HKN Energy Nordic Bonds with a par value of \$9.0 million.

## **Operational and Financial Update**

- HKN temporarily halted production from all facilities on April 19 when onsite and offsite storage was at capacity. Limited production and sales to local refineries began on April 25.
  - Production from the facilities on East Swara Tika and Swara Tika Pad A is currently suspended.
  - Production continues from the two Swara Tika Pad B facilities.
- Revenue decreased 82.3% for the second quarter of 2023 from the comparable period in 2022. The decrease reflects a 54.5% decrease in production and a 61.2% decrease in realized oil price.
  - Realized oil price in the second quarter of 2023 was \$41.47, compared to \$106.87 in the second quarter of 2022.
  - Production during the second quarter was curtailed due to the pipeline closure and reflects the more limited local market for crude oil sales.
  - 471k barrels of oil (gross) remained in storage in offsite facilities as of June 30.
- CAPEX spend was \$39.1 million (net to HKN) in the first half of 2023. Planned CAPEX for the remainder of 2023 is approximately \$10 to \$15 million, net to HKN, which represents an 80% decrease from expectations at the beginning of 2023.
- HKN received \$19.9 million in payments for local oil sales during the second quarter of 2023.
- \$190.7 million for oil sold to the KRG for the final three months of 2022 and the first three months of 2023 remains outstanding, and no repayment plan currently exists. HKN increased its credit loss provision for outstanding KRG receivables by \$23.6 million as of June 30, 2023.
- Cash balance on June 30, 2023, was \$127.0 million, including restricted cash of \$10.5 million.
- We have cut OPEX and G&A spending aggressively and will continue to optimize our cost structure. The cost reductions include a 50% decrease in personnel since the end of March 2023.
- 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 and the vagaries of the local market for crude sales.

## Summary of Results – HKN Energy Ltd.

		Q2 2023 (unaudited)	Q2 2022 (unaudited)	6 Months Ended 2023 (unaudited)	6 Months Ended 2022 (unaudited)
Production (gross)	Bopd	13,561	29,800	24,237	29,719
Production (net) <sup>(1)</sup>	Bopd	8,408	18,476	15,027	18,426
Revenue	USDm	\$ 19,910	\$ 112,734	\$ 101,194	\$ 211,720
Operating cash flow	USDm	\$ 14,484	\$ 116,844	\$ 51,688	\$ 164,800
Capex	USDm	\$ (18,393)	\$ (24,635)	\$ (39,142)	\$ (49,635)
Free cash flow <sup>(2)</sup>	USDm	\$ (3,909)	\$ 92,209	\$ 12,546	\$ 115,165
Cash (incl. restricted) at 30 June	USDm	\$ 126,964	\$ 175,135	\$ 126,964	\$ 175,135
Short Term Investments at 30 June	USDm	\$ -	\$ 117,217	\$ -	\$ 117,217
Restricted cash at 30 June	USDm	\$ 10,462	\$ 10,683	\$ 10,462	\$ 10,683
Debt at 30 June <sup>(3)</sup>	USDm	\$ 142,000	\$ 149,000	\$ 142,000	\$ 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.<sup>(1)</sup>

		6 Months Ended 2023 (unaudited)	6 Months Ended 2022 (unaudited)
Cash (incl. restricted) at 30 June	USDm	\$ 22,343	\$ 14,848
Restricted cash at 30 June	USDm	\$ 12,021	\$ 12,000
Debt at 30 June <sup>(2)</sup>	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.*