

HKN Energy III, Ltd.

Operational & Corporate Update

HKN Energy III, Ltd. (“HKN III”) presents an operating and financial update for the twelve months ended December 31, 2023. HKN III holds an approximately 68% ownership interest in HKN Energy Ltd. (“HKN Energy”), whose principal activity is the exploration, development, and production of oil in the Sarsang Block in northern Kurdistan.

Distributions and Bond Repurchases

- On December 28, 2023, HKN Energy declared a distribution of \$50.0 million. \$40.0 million was paid in December 2023, with the balance paid in January 2024. HKN III received \$33.9 million of the total dividend.
- HKN Energy repurchased and retired HKN Energy Nordic Bonds with a par value of \$30.9 million during August to December 2023. In January 2024, HKN Energy called the remaining \$69.1 million par value of HKN Energy Nordic Bonds.
- HKN III repurchased and retired HKN III Nordic Bonds with a par value of \$4.85 million during December 2023.

Operational and Financial Update

- HKN Energy’s Sarsang gross production during Q4 2023 averaged 38k bopd.
- Due to pressure created by the closure of the Iraq-Turkey pipeline, HKN Energy’s revenue decreased 45.9% for the fourth quarter of 2023 from the comparable period in 2022. The decrease reflects an 11.1% decrease in production and a 39.1% decrease in realized oil price from \$68.96 in Q4 2022 to \$42.00 in Q4 2023.
- For the full year 2023, HKN Energy’s revenue decreased 50.9% compared to 2022. Production decreased by 10.3% and realized oil price decreased by 45.2%.
- HKN Energy’s CAPEX spend was \$52.1 million (net to HKN Energy) in 2023.
- HKN III’s stand-alone cash balance on January 31, 2024, was \$65.0 million, including restricted cash of \$12.2 million. HKN Energy’s cash balance on January 31, 2024, was \$42.1 million, including restricted cash of \$4.8 million.
- HKN Energy continues to sell oil in the domestic market. If current conditions persist, we are targeting production of approximately 30k to 35k bopd during 2024.

Summary of Results – HKN Energy III, Ltd. Consolidated and Unconsolidated ⁽¹⁾

		Q4 2023 (unaudited)	Q4 2022 (unaudited)	12 Months Ended 2023 (unaudited)	12 Months Ended 2022 (unaudited)
HKN Energy III, Ltd. Consolidated:					
Production (gross)	Bopd	38,249	43,038	29,732	33,162
Production (net) ⁽²⁾	Bopd	23,715	26,684	18,434	20,560
Revenue	USDm	\$ 57,490	\$ 106,206	\$ 203,326	\$ 414,001
Operating cash flow	USDm	\$ 46,796	\$ 53,617	\$ 140,019	\$ 276,448
Capex	USDm	\$ (5,802)	\$ (41,916)	\$ (52,113)	\$ (123,887)
Free cash flow ⁽³⁾	USDm	\$ 40,994	\$ 11,701	\$ 87,906	\$ 152,561
Cash (incl. restricted) at 31 December	USDm	\$ 152,836	\$ 143,901	\$ 152,836	\$ 143,901
Short Term Investments at 31 December	USDm	\$ -	\$ 6,667	\$ -	\$ 6,667
Restricted cash at 31 December	USDm	\$ 20,805	\$ 22,595	\$ 20,805	\$ 22,595
Debt at 31 December ⁽⁴⁾	USDm	\$ 202,750	\$ 245,500	\$ 202,750	\$ 245,500
HKN Energy III, Ltd. Unconsolidated:					
Cash (incl. restricted) at 31 December	USDm	\$ 58,034	\$ 22,159	\$ 58,034	\$ 22,159
Restricted cash at 31 December	USDm	\$ 12,166	\$ 12,046	\$ 12,166	\$ 12,046
Debt at 31 December ⁽⁴⁾	USDm	\$ 95,150	\$ 100,000	\$ 95,150	\$ 100,000

Notes:

- (1) For legal organizational chart please refer to <https://www.hknergy.com/investors/legal-organizational-chart/>
- (2) Net based on HKN Energy's 62% PSC interest in the Sarsang Block.
- (3) 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.
- (4) 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.

HKN ENERGY III, LTD.

Consolidated Financial Statements

December 31, 2023 and 2022

(Unaudited)

HKN ENERGY III, LTD.

Consolidated Statements of Financial Position

December 31, 2023 and 2022

In thousands of US dollar

(Unaudited)

	December 31, 2023	December 31, 2022
ASSETS		
Non-current assets		
Property and equipment - oil properties (net)	431,964	467,842
Other property and equipment (net)	3,135	4,186
Total non-current assets	435,099	472,028
Current assets		
Inventory	17,706	19,069
Prepaid expenses	705	851
Trade and other receivables	174,469	182,439
Affiliate receivables	973	314
Short-term investments	-	6,667
Cash and cash equivalents	132,031	121,306
Restricted cash	20,805	22,595
Total current assets	346,689	353,241
TOTAL ASSETS	781,788	825,269
EQUITY AND LIABILITIES		
Equity		
Share capital	1	1
Additional paid-in capital	149,381	149,381
Retained earnings	115,370	94,508
Equity attributable to HKN Energy III, Ltd.	264,752	243,890
Noncontrolling interest	173,495	185,593
Total equity	438,247	429,483
Non-current liabilities		
Debt (net of issuance costs and fees)	125,464	235,893
Share acquisition liability	41,309	52,794
Lease liabilities	131	131
Decommissioning provisions	16,417	15,225
Total non-current liabilities	183,321	304,043
Current liabilities		
Trade and other payables	53,095	69,052
Distributions payable	3,226	-
Debt (net of issuance costs and fees)	76,001	7,000
Share acquisition liability	27,774	15,405
Current lease liabilities	124	286
Total current liabilities	160,220	91,743
Total liabilities	343,541	395,786
TOTAL EQUITY AND LIABILITIES	781,788	825,269

HKN ENERGY III, LTD.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2023 and 2022

In thousands of US dollar

(Unaudited)

	2023	2022
Continuing operations		
Revenue	203,326	414,001
Operating expenses	37,476	57,165
Oil transportation expenses	4,537	9,180
Depletion, depreciation and amortization	82,060	90,986
Cost of sales	124,073	157,331
Impairment of trade receivables	6,793	9,559
Gross profit	72,460	247,111
General and administrative expenses	17,092	19,707
Profit from operating activities	55,368	227,404
Finance income	8,448	2,138
Finance expenses	(26,324)	(26,615)
Finance expense - change in share acquisition liability	(884)	(14,933)
Other expense	(87)	(112)
Total profit	36,521	187,882
Other comprehensive expense		
Unrealized gain on short-term investments	112	15
Reclassification adjustment for gain on short-term investments to finance income	(127)	-
Total other comprehensive income (expense)	(15)	15
Total comprehensive income	36,506	187,897
Less: Profit attributable to noncontrolling interest	(15,649)	(69,527)
Less: Other comprehensive income attributable to noncontrolling interest	5	(5)
Total comprehensive income attributable to HKN Energy III, Ltd.	20,862	118,365

HKN ENERGY III, LTD.

Consolidated Cash Flow Statements

Years ended December 31, 2023 and 2022

In thousands of US dollar

(Unaudited)

	2023	2022
OPERATING ACTIVITIES		
Profit	36,521	187,882
Adjustments to add non-cash items:		
Depreciation, depletion and amortization	82,060	90,986
Finance income and expense	17,876	24,477
Impairment of trade receivables	6,793	9,559
Spare parts inventory expensed	617	-
Finance expense - change in share acquisition liability	884	14,933
Changes in working capital and provisions:		
Trade and other receivables	1,508	(57,562)
Affiliate receivables	(659)	(192)
Prepaid expenses	146	(229)
Trade and other payables	(5,727)	6,594
Cash generated from operations	140,019	276,448
Interest received	6,429	2,035
Interest paid	(26,175)	(26,347)
Net cash from operating activities	120,273	252,136
INVESTING ACTIVITIES		
Payments for property and equipment	(52,113)	(123,887)
Purchases of short-term investments	-	(117,680)
Maturity of short-term investments	6,779	-
Net cash used in investing activities	(45,334)	(241,567)
FINANCING ACTIVITIES		
Repayments of debt	(7,000)	(3,500)
Repurchase of company bonds	(34,189)	-
Payments of share acquisition liability	-	(46,869)
Payments of lease liabilities	(299)	(295)
Shareholders' distributions	(24,516)	(21,759)
Net cash used in financing activities	(66,004)	(72,423)
Net increase (decrease) in cash and cash equivalents, and restricted cash	8,935	(61,854)
Cash and cash equivalents, and restricted cash at beginning of the period	143,901	205,755
Cash and cash equivalents, and restricted cash at end of the period	152,836	143,901
Restricted cash	20,805	22,595
Noncash capital expenditures in liabilities at period end	5,334	14,372

HKN ENERGY III, LTD.

Consolidated Statements of Changes in Equity

Years ended December 31, 2023 and 2022

In thousands of US dollar

(Unaudited)

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Equity attributable to HKN Energy III, LTD.</u>	<u>Noncontrolling interest</u>	<u>Total equity</u>
Total equity as of January 1, 2022	1	149,381	46,446	195,828	178,238	374,066
Profit for the period	-	-	118,355	118,355	69,527	187,882
Unrealized gain on short-term investments	-	-	10	10	5	15
Total comprehensive income	-	-	118,365	118,365	69,532	187,897
Shareholders' distributions	-	-	(70,303)	(70,303)	(62,177)	(132,480)
Total equity as of December 31, 2022	<u>1</u>	<u>149,381</u>	<u>94,508</u>	<u>243,890</u>	<u>185,593</u>	<u>429,483</u>
 Total equity as of January 1, 2023	 1	 149,381	 94,508	 243,890	 185,593	 429,483
Profit for the period	-	-	20,872	20,872	15,649	36,521
Unrealized gain on short-term investments	-	-	76	76	36	112
Reclassification adjustment for gain on short-term investments to finance income	-	-	(86)	(86)	(41)	(127)
Total comprehensive income	-	-	20,862	20,862	15,644	36,506
Shareholders' distributions	-	-	-	-	(27,742)	(27,742)
Total equity as of December 31, 2023	<u>1</u>	<u>149,381</u>	<u>115,370</u>	<u>264,752</u>	<u>173,495</u>	<u>438,247</u>

At December 31, 2023 and 2022, there were 200,000 common shares authorized at a \$0.01 par value, with 100,000 common shares issued and outstanding. As of December 31, 2023 and 2022, the Company held no treasury shares.