Report of Independent Registered Public Accounting Firm and Financial Statements and Accompanying Notes for the Years Ended December 31, 2016 and 2015

HKN, Inc. (HKNI)
A Delaware Corporation Listed on the OTC Pink

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
HKN, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HKN, Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HKN, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hein & Associates LLP

Dallas, Texas
February 27, 2017

HKN, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except for share and per share amounts)

	December 31, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,687	$ 3,646
Accounts receivable	109	123
Accounts receivable - related party	-	247
Short term note receivable - related party, net of deferred transaction fees of $17 thousand at December 31, 2015	-	1,983
Prepaid expenses and other current assets	135	163
Total Current Assets	4,931	6,162
Oil and gas property, using the successful efforts method of accounting	2,026	2,022
Arctic Star plant	2,498	5,867
Office equipment and other	185	283
Accumulated depreciation and depletion	(2,553)	(2,043)
Total Property and Equipment, net	2,156	6,129
Intangible assets, net	628	1,271
Investment in Global	3,634	4,537
Other assets	68	129
Total Assets	$ 11,417	$ 18,228
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade payables	$ 7	$ 76
Liabilities of discontinued operations	3	26
Capital lease obligation - short term	-	52
Accrued liabilities and other	56	221
Total Current Liabilities	66	375
Asset retirement obligation	3	2
Total Liabilities	69	377
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Common stock, $0.01 par value; 2,000,000 shares authorized; 390,916 shares issued and outstanding	4	4
Additional paid-in capital	449,744	449,703
Accumulated deficit	(432,055)	(426,414)
Accumulated other comprehensive loss	(6,345)	(5,442)
Total Stockholders' Equity	11,348	17,851
Total Liabilities and Stockholders' Equity	$ 11,417	$ 18,228

The accompanying Notes to Consolidated Financial Statements
are an integral part of these Statements.

HKN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for share and per share amounts)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Revenues:		
Oil and gas operations	$ 385	$ 542
Total revenues	385	542
Operating costs and expenses:		
Oil and gas operating	124	160
Arctic Star plant operating	268	750
Selling, general and administrative	2,358	3,914
Depreciation, depletion and amortization	802	1,191
Impairment	3,829	1,005
Total operating costs and expenses	7,381	7,020
Loss from operations	(6,996)	(6,478)
Other income and expenses:		
Interest and other expenses	(169)	(87)
Interest and other income - related party	215	93
Interest and other income	1,328	123
Loss on sale of assets	-	(144)
Total other income (expense)	1,374	(15)
Loss from continuing operations	(5,622)	(6,493)
Loss from discontinued operations	(19)	(241)
Net loss	$ (5,641)	$ (6,734)
Loss per common share from continuing operations	$ (14.38)	$ (16.61)
Loss per common share from discontinued operations	(0.05)	(0.62)
Net loss per common share, basic and diluted	$ (14.43)	$ (17.23)
Weighted average common shares outstanding:		
Basic and diluted	390,916	390,916

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HKN, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Net loss	$ (5,641)	$ (6,734)
Foreign currency translation adjustments	(756)	(386)
Unrealized loss on investments	(147)	(5,056)
Other comprehensive loss	(903)	(5,442)
Comprehensive loss	$ (6,544)	$ (12,176)

The accompanying Notes to Consolidated Financial Statements
are an integral part of these Statements.

HKN, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2014	$ 4	$ 449,762	$ (419,680)	$ -	$ 30,086
Stock-based compensation benefit	-	(59)	-	-	(59)
Comprehensive loss:					
Net loss			(6,734)		
Unrealized loss on available for sale investments				(5,056)	
Unrealized foreign currency loss				(386)	
Total comprehensive loss					(12,176)
Balance, December 31, 2015	$ 4	$ 449,703	$ (426,414)	$ (5,442)	$ 17,851
Stock-based compensation expense	-	62	-	-	62
Stock option plan termination	-	(21)	-	-	(21)
Comprehensive loss:					
Net loss			(5,641)		
Unrealized loss on available for sale investments				(147)	
Unrealized foreign currency loss				(756)	
Total comprehensive loss					(6,544)
Balance, December 31, 2016	$ 4	$ 449,744	$ (432,055)	$ (6,345)	$ 11,348

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

HKN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash flows from operating activities:		
Net loss	$ (5,641)	$ (6,734)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	802	1,191
Stock-based compensation expense (benefit)	62	(59)
Loss on sale of assets	-	144
Amortization of note receivable - related party transaction fee	(17)	(23)
Impairment	3,829	1,005
Other	-	5
Change in operating assets and liabilities:		
Accounts receivable and accounts receivable - related party	309	(223)
Prepaid assets and other	29	113
Trade payables and other	(213)	(215)
Net cash used in operating activities - continuing operations	(840)	(4,796)
Net cash used in operating activities - discontinued operations	(23)	(3,211)
Net cash used in operating activities	(863)	(8,007)
Cash flows from investing activities:		
Capital expenditures	(54)	(565)
Net proceeds from sales of assets	31	45
Issuance of note receivable to related party, net of origination fee of $40K	-	(1,960)
Repayment of note receivable - related party	2,000	-
Net cash provided by (used in) investing activities	1,977	(2,480)
Cash flows from financing activities:		
Principal payments on note payable obligations	-	(63)
Principal payments on capital lease obligations	(52)	(306)
Settlement of stock options	(21)	-
Net cash used in financing activities	(73)	(369)
Net increase (decrease) in cash and cash equivalents	1,041	(10,856)
Cash and cash equivalents at beginning of period	3,646	14,502
Cash and cash equivalents at end of period	$ 4,687	$ 3,646
Supplemental cash disclosures:		
Cash paid for interest	$ 4	$ 94

The accompanying Notes to Consolidated Financial Statements
are an integral part of these Statements.

HKN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our business strategy is focused on enhancing value for our shareholders through the development of a well-balanced portfolio of assets in the energy industry. Currently, the majority of the value of our assets is derived from our investment in publicly-traded ordinary shares of Global Energy Development PLC ("Global") and our wholly-owned subsidiaries, BriteWater International, Inc. ("BWI"), HKN Bakken, Inc. ("HBI") and HTH, Inc. ("HTH").

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and such differences could be material. Certain prior year amounts have been reclassified to conform with the 2016 presentation.

Principles of Consolidation – The consolidated financial statements include the accounts of all companies that we, through our direct or indirect ownership or shareholding, were provided the ability to control their operating policies and procedures. All significant intercompany balances and transactions have been eliminated.

As a result of the sales of our Gulf Coast oil and gas properties during 2011, any remaining Gulf Coast oil and gas activities are included as discontinued operations on the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows for all periods presented.

Statement of Cash Flows **-** For purposes of the consolidated statements of cash flows, we consider all highly liquid investments and treasury bills purchased with an original maturity of three months or less to be cash equivalents. Cash paid for interest was $4 thousand and $94 thousand for the years ended December 31, 2016 and 2015, respectively. No income taxes were paid for the years ended December 31, 2016 and 2015.

Concentrations of Credit Risk **-** Although our cash and cash equivalents and accounts receivable are exposed to potential credit loss, we do not believe such risk to be significant. Cash and cash equivalents include investments in money markets placed with highly rated financial institutions.

Accounts Receivable and Allowance for Doubtful Accounts – Trade accounts receivable are customer obligations due under normal trade terms. We had $60 thousand and $119 thousand in trade receivables related to accrued revenues from oil and gas production at December 31, 2016 and 2015, respectively. We had other accounts receivable of $49 thousand at December 31, 2016, primarily related to cash call refunds due to us from an oil and gas operator. We had other accounts receivable of $4 thousand at December 31, 2015.

Senior management reviews accounts receivable to determine if any receivables will potentially be uncollectible. We include provisions for any accounts receivable balances that are determined to be uncollectible in the allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. However, actual write-offs could exceed the recorded allowance. No allowance has been recognized on our accounts receivable for the years ended December 31, 2016 and 2015.

Accumulated Other Comprehensive Income – Comprehensive income includes changes in stockholders' equity during the periods that do not result from transactions with stockholders. Changes in our accumulated other comprehensive income (loss) during the period are as follows (in thousands):

	Accumulated Other Comprehensive Loss as of December 31, 2015	Current Period Unrealized Loss	Accumulated Other Comprehensive Loss as of December 31, 2016
Investment in Global	$ (5,056)	$ (147)	$ (5,203)
Foreign Currency Translation Adjustments	(386)	(756)	(1,142)
	$ (5,442)	$ (903)	$ (6,345)

Fair Value of Financial Instruments – Financial instruments are stated at fair value as determined in good faith by management. Factors considered in valuing individual investments include, without limitation, available market prices, reported net asset values, marketability, restrictions on disposition, current financial position and operating results, and other pertinent information. See Note 6 – "Fair Value Measurements" for more information.

We carry our financial instruments, which include cash, restricted cash and our common stock investment in Global at their estimated fair values. Our investment in ordinary shares of Global has been designated as available for sale rather than a trading security. The associated unrealized gains and losses on our available for sale investment are recorded to other comprehensive income (loss) until realized and reclassified into earnings using specific identification. The fair value of our investment in the ordinary shares of Global is based on prices quoted in an active market. Our investment in Global is classified as a non-current asset in our accompanying consolidated balance sheets.

Translation of Non-U.S. Currency Amounts – Our investment in Global is subject to foreign currency exchange rate risk as Global's ordinary shares are denominated in British pounds sterling. Translation adjustments are recorded to other comprehensive income (loss) until realized through sale or impairment and reclassified into earnings.

BWI Property and Equipment – Project costs that are clearly associated with the acquisition, development and construction of a plant are capitalized as costs of that project. In addition, indirect project costs that are identified with a specific project, including selling, general and administrative expenses, are capitalized and allocated to the project to which the costs relate. Overhead costs and costs incurred after the project is ready for its intended use are charged to expense as incurred.

During January 2015, the Arctic Star plant was fully commissioned and subject to depreciation. The Arctic Star plant property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 30 years. We recorded depreciation expense of $407 thousand and $593 thousand related to the Arctic Star plant for the years ended December 31, 2016 and 2015, respectively. Of this depreciation expense, $98 thousand was related to assets under capital lease for the year ended December 31, 2015. See Note 2 – "BriteWater International, Inc." for more information.

BWI also had a completed purpose-built plant which was designed to break emulsions found in weathered lagoon pits which was sold in December 2015. As a result, we recognized a loss on this sale of $78 thousand in our consolidated statements of operations.

Capital Leases – During the second quarter 2014, we leased equipment for the Arctic Star plant under two separate capital leases which each had two year minimum lease terms. During May 2015, we purchased rig mats which were previously capital lease assets for $103 thousand and reversed the corresponding capital lease obligation of $220 thousand, with the offset reducing the asset carrying value of the rig mats. During October 2015, we returned storage tanks, which remained under capital lease until February 2016, to the lessor. As a result of returning these tanks prior to the conclusion of the lease term, we removed the asset and its accumulated depreciation from our consolidated balance sheets and recognized a $67 thousand loss in our consolidated statement of operations for the year ended December 31, 2015. At December 31, 2016 and 2015, we held no assets under capital lease.

At December 31, 2015, the total capital lease obligation was $52 thousand, all of which was classified as a short-term liability in our consolidated balance sheets. The final payment on our capital lease obligation was made in February 2016 at the end of the tank lease term. Capital lease interest expense was $2 thousand and $87 thousand for the years ended December 31, 2016 and 2015, respectively.

Oil and Gas Properties – We use the successful efforts method of accounting for our HBI oil and gas activities. The significant principles for this method are:

- Geological and geophysical evaluation costs are expensed as incurred;
- Costs incurred to drill and equip all successful wells are capitalized;
- Dry holes for exploratory wells are expensed;
- Dry holes for development wells are capitalized;
- Capitalized costs related to proved oil and gas property leasehold costs are depleted over total proved oil and gas reserves; and
- Capitalized costs related to wells and related equipment and facilities costs are depreciated over proved developed reserves.

Estimates of proved oil and gas reserves directly impact financial accounting estimates including depreciation, depletion and amortization expense, evaluation of impairment of properties and the calculation of plugging and abandonment liabilities. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations. The process of estimating quantities of proved reserves is very complex, requiring significant subjective decisions in the evaluation of all geological, engineering and economic data for each reservoir. The data for any reservoir may change substantially over time due to results from operational activity.

Capital amounts attributable to developed oil and gas properties are depleted by the unit-of-production method over proved reserves using the unit conversion ratio for gas of six Mcf of gas to one barrel of oil equivalent ("BOE"), and one barrel of NGLs to one BOE. Unproved properties are excluded from this calculation. Due to ongoing decreased oil prices, resulting in uneconomic conditions for certain wells in the Bakken play, and decreased investments anticipated in new wells, we recognized impairment losses of $928 thousand on proved properties and $77 thousand on unproved properties as a component of operating expenses within the HKN operating segment of our consolidated statements of operations for the year ended December 31, 2015. After the 2015 impairment, the new gross cost basis of the oil and gas properties was $2 million and consisted only of proved properties. No impairment was recognized on the oil and gas properties during the year ended December 31, 2016. Depreciation, depletion and amortization expense for oil and gas producing properties and related equipment was $150 thousand and $335 thousand for the years ended December 31, 2016 and 2015, respectively.

We use the sales method to recognize our oil and gas revenues. Under this method, revenues are recognized based on our interests in the actual volumes of gas and oil sold to purchasers.

Other Property and Equipment – Other property and equipment, which includes computer equipment, computer hardware and software, furniture and fixtures, leasehold improvements and automobiles, is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 5 years. We recorded depreciation expense related to other property and equipment of $62 thousand and $72 thousand for the years ended December 31, 2016 and 2015, respectively.

Intangible Assets – Our intangible assets consist of patents acquired in connection with our investment in BWI. Our patents were valued at $2.6 million on their acquisition date and are amortized on a straight-line basis over a period of 6-21 years, based on their respective contractual lives. Accumulated amortization in the amount of $1.5 million has been recorded on these patents to date.

We review our amortizing intangible assets on an annual basis as well as when events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As part of our annual review, we evaluated the patents for recoverability as of December 31, 2016. The fair value of the patents was determined by an independent third-party valuation using the cost approach. It was determined that the carrying value of the patents exceeds their fair value and we recognized an impairment loss of $459 thousand as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2016. No impairment was recognized on the patents during the year ended December 31, 2015.

We have recorded amortization expense related to these patents of $183 thousand and $191 thousand for the years ended December 31, 2016 and 2015, respectively. Patent annuity fees and legal fees related to the maintenance of our existing patents are expensed as incurred and recorded within selling, general and administrative expenses in our consolidated statements of operations. The estimated future annual amortization of our patents over the next five years is as follows (in thousands):

Year	Amount
2017	$ 47
2018	47
2019	47
2020	47
2021	47
Thereafter	393
Total	$ 628

Investment in Global – We do not account for our investment in Global as an equity method investment in spite of our 35% ownership. We are unable to obtain U.S. GAAP financial statements quarterly to perform equity method accounting due to the semi-annual reporting requirements Global follows under the AIM exchange rules. As a result, we account for Global as an available for sale investment.

Our policy is to review our investment in Global semi-annually or more often if any indicators of impairment become known. We continuously monitor macroeconomic indicators and track Global's stock price volatility for any downward trends in the market. We also review public financial information including Global's issued financial statements and investor presentations, as well as financial analysts' reviews and recommendations for any indicators of an other-than-temporary impairment in our carrying value. We also assess internally our ability and intent to hold our investment in Global should the fair value drop below our cost. Any resulting other-than-temporary impairment would be immediately recognized in earnings. We did not recognize any other-than-temporary impairment for the years ended December 31, 2016 and 2015. See Note 4 – "Investment in Global" for more information.

Other Assets – At December 31, 2016, other assets included $8 thousand in prepaid drilling costs related to the drilling and completion of wells held by HBI, $10 thousand in deposits related to the Arctic Star site lease and facility, and restricted cash of $50 thousand for a Letter of Credit required for the

Arctic Star plant site lease.

Notes Receivable – Our notes receivable are stated at their outstanding principal balance, less any allowance for doubtful accounts and deferred transaction fees. Interest income is recognized as earned at the stated interest rate over the life of the loan. Transaction fees related to the notes are deferred and amortized using the effective interest method over the life of the loan and are recognized in interest income from related parties within our consolidated statements of operations.

We evaluate our notes receivable to determine if any receivable will potentially be uncollectible and include provisions for any notes receivable balances that are determined to be uncollectible in the allowance for doubtful accounts.

Stock-Based Compensation – We measure all stock-based compensation awards using a fair value method on the date of grant and recognize such expense in our consolidated financial statements over the requisite service period on a straight-line basis. We use the Black-Scholes formula to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes formula requires management to make assumptions regarding the option lives, expected volatility, and risk free interest rates. Please see Note 10 – "BWI Stock Compensation" for additional information on our stock-based compensation plan.

Provisions for Asset Impairments - Assets that are used in our operations and not held for sale, are carried at cost, less accumulated depreciation and amortization. We review our amortizing intangible assets and our long-lived assets on an annual basis as well as when events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. Recoverability is measured by a comparison of the carrying value of the asset to its undiscounted future cash flows over the life of the related asset. If it is determined that an asset is not recoverable, an estimated fair value of the asset is determined. Any excess of the carrying value of the asset over its fair value is recognized as an impairment loss as a component of operating expenses within our consolidated statements of operations.

Proved crude oil and natural gas properties are reviewed for impairment on a reservoir basis annually, or when events and circumstances indicate a possible decline in the recoverability of the carrying value of such reservoir. The estimated future cash flows expected in connection with the reservoir are compared to the carrying amount of the reservoir to determine if the carrying amount is recoverable. If the carrying amount of the reservoir exceeds its estimated undiscounted future cash flows, the carrying amount of the field is reduced to its estimated fair value.

Impairment losses totaling $3.8 million and $1 million were recognized on long-lived assets used in our operations during the years ended December 31, 2016 and 2015, respectively. The 2016 impairment losses consisted of approximately $3.4 million for the Arctic Star plant and $459 thousand for the BWI intangible assets. The 2015 impairment losses were related to oil and gas properties held by HBI. Please see Note 6 – "Fair Value Measurements" for more information on these impairments and related assumptions.

Asset Retirement Obligations – We recognize the present value of asset retirement obligations beginning in the period in which they are incurred if a reasonable estimate of a fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Our liability for asset retirement obligations is determined using significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive lives of wells and our risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligation. Accordingly, this obligation is classified as a non-recurring Level 3 fair value measurement.

Our asset retirement obligation is related to our oil and gas properties and was $3 thousand and $2 thousand at December 31, 2016 and 2015, respectively. Changes to the liability during the year ended December 31, 2016 were negligible.

Income Taxes – We account for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. We measure and record income tax contingency accruals in accordance with guidance related to uncertain tax positions.

We recognize liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we must determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis or when new information becomes available to management. These reevaluations are based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit, expirations due to statutes, and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an increase to the tax accrual.

We classify interest related to income tax liabilities as income tax expense, and if applicable, penalties are recognized as a component of income tax expense. The income tax liabilities and accrued interest and penalties that are anticipated to be due within one year of the balance sheet date are presented as current liabilities in our consolidated balance sheets.

Loss Contingencies – Management continuously reviews with legal counsel the status of regulatory matters and pending or threatened litigation. With respect to all significant litigation matters, we consider the likelihood of a negative outcome. If we determine the likelihood of a negative outcome is probable and the amount of the loss can be reasonably estimated as of the date of the financial statements, we record an estimated loss for the expected outcome of the litigation. If the likelihood of a negative outcome is reasonably possible and we are able to determine an estimate of the possible loss or range of loss, we disclose that fact together with the estimate of the possible loss or range of loss. However, it is often difficult to predict the outcome or estimate a possible loss or range of loss because litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages. Such is also the case when the litigation is in its early stages or when the litigation is highly complex or broad in scope. In these cases, we disclose that we are unable to predict the outcome or estimate a possible loss or range of loss. We expense legal costs related to such loss contingencies as they are incurred.

Recently Issued Accounting Pronouncements – In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. Additionally, the standard changes the disclosure requirements for financial instruments. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted for certain provisions. The Company is currently evaluating the effect the standard will have on our consolidated financial statements as well as whether to adopt certain provisions early.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard amends the guidance for lease accounting to require lease assets and liabilities longer than 12 months be recognized on the balance sheet, along with additional disclosures regarding key leasing arrangements. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Entities must adopt the standard using a modified retrospective transition and apply the guidance to the earliest comparative period presented. The Company is currently evaluating the effect the standard will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. Under this new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. Adoption is allowed by either the full retrospective or modified retrospective approach. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Entities can transition to the standard either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies how to apply the implementation guidance on principal versus agent considerations. We are currently evaluating which approach we will apply and the impact, if any, that this standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This standard simplifies accounting for stock-based compensation including the recognition of excess tax benefits and deficiencies and their related presentation in the statement of cash flows as well as accounting for forfeitures. The amendments in this standard are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. Each amendment requires a specific method of adoption, and designates whether each amendment should be adopted using a retrospective, modified retrospective, or prospective transition method. Due to the termination of our stock option plan in April 2016 (See Note 10 – "BWI Stock Compensation" for additional information) this standard is not expected to have any impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* This standard reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance addresses eight specific cash flow issues for which current U.S. GAAP is either unclear or does not include specific guidance. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact, if any, that this standard will have on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard does not provide a definition of restricted cash or restricted cash equivalents. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We currently do not expect this standard to have a material impact on our consolidated financial statements.

(2) BRITEWATER INTERNATIONAL, INC.

BWI holds patents for oilfield emulsion breaking technology. This is a continuous process technology that can process oilfield emulsions by breaking and separating the emulsions into oil, water and solids, thereby reducing the environmental impact and disposal costs of the waste materials while recovering valuable oil. This technology has been successfully tested in multiple refineries as well as in a demonstration in Prudhoe Bay, Alaska, all of which confirmed the effectiveness of the emulsion breaking technology to recover valuable hydrocarbons and reduce wastes.

BWI's wholly-owned subsidiary, Arctic Star Alaska, Inc. ("Arctic Star"), has a 1,000 barrel per day oilfield waste processing plant located in Deadhorse, Alaska. Although the Arctic Star plant was commissioned and ready for use in the first quarter 2015, the plant is currently not economical due to a low availability of feedstock and continued low oil pricing. As a result, the plant has been idle since March 2015. Although management will continue to monitor marketing conditions, it is currently unknown how long the plant will remain idle due to continued uncertainty in long-term crude pricing as well as oilfield drilling and development activities near the plant.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. As a result of current market conditions, we determined we would not likely deploy and operate the Arctic Star plant for its intended purpose in the near future and, as a result, we evaluated the plant for recoverability as of September 30, 2016. The fair value of the Arctic Star plant was determined by an independent third-party valuation using the discounted cash flow method. It was determined that the carrying value of the plant exceeds its fair value and we recognized an impairment loss of approximately $3.4 million as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2016. No impairment was recognized on the Arctic Star plant during the year ended December 31, 2015. Please see Note 6 – "Fair Value Measurements" for more information on the method used to determine the fair value of this asset.

BWI also had a completed purpose-built plant which was designed to break emulsions found in weathered lagoon pits which was sold in December 2015. As a result, we recognized a loss on this sale of $78 thousand in our consolidated statements of operations.

(3) OIL AND GAS PROPERTIES

HBI - HBI holds non-operated working and royalty interests in properties strategically located in the Bakken and Niobrara shale oil plays. Due to the impact of decreased oil prices on the ultimate economics of wells in these plays, we assess each drilling opportunity on a case-by-case basis and only elect to participate in wells that we expect to meet our return thresholds based upon our estimates of ultimate recoverable crude oil and natural gas, expertise of the operator and completed well cost from each project, as well as other factors. As a result, we plan to participate on a discretionary basis during 2017 and anticipate we will participate in few wells. During the year ended December 31, 2016, we had capital expenditures of $12 thousand.

Due to decreased oil prices, which resulted in uneconomic conditions causing the derecognition of proved undeveloped reserves in the Bakken play and anticipated decreased investment in new wells, we recognized impairment losses of $928 thousand on proved properties and $77 thousand on unproved properties as a component of operating expenses within the HKN operating segment of our consolidated statements of operations for the year ended December 31, 2015. Please see Note 6 – "Fair Value Measurements" for more information on the method used to determine the fair value of these assets.

In May 2016, we reached an agreement with Gerrity Bakken, LLC to refund proceeds associated with a Bakken well they purchased from us upon the final dissolution of Gerrity Oil, LLC in April 2014. As a result of this agreement, we recognized a $159 thousand expense within interest and other expenses in our consolidated statements of operations.

In May 2015, HBI sold its interest in a six acre parcel of land in Colorado to Gerrity Bakken, LLC for proceeds of approximately $13 thousand and recognized a gain on this sale of $13 thousand within loss on sale of assets in our consolidated statements of operations.

HTH - HTH holds mineral interests previously owned by former subsidiaries. During the year ended December 31, 2016, we executed three lease agreements for oil and gas properties in Reeves County and Ward County, Texas. All leases have three year terms. We received a combined total of $316 thousand in lease bonus consideration for these transactions which was recognized within interest and other income in our consolidated statements of operations. During the year ended December 31, 2016, we also sold oil and gas property in Texas, Oklahoma and New Mexico for combined proceeds of $971 thousand. The proceeds from these sales was recognized within interest and other income in our consolidated statements of operations due to these properties having no carrying value in our consolidated balance sheets as of December 31, 2016 and 2015.

Subsequent to the year ended December 31, 2016, we sold oil and gas property in Ward County, Pecos County and Reeves County, Texas for proceeds of $532 thousand. We also sold royalty interests in 13 producing wells in Martin County, Pecos County and Reeves County, Texas for proceeds of $700 thousand.

(4) INVESTMENT IN GLOBAL

Our non-current available-for-sale investment consists of our ownership of approximately 35% of Global's outstanding ordinary shares at December 31, 2016. We did not purchase any additional shares of Global during 2016. Subsequent to the period ended December 31, 2016, Global changed its name to Nautilus Marine Services PLC ("Nautilus") following its completion of transactions to acquire subsea service vessels. Nautilus is focused on investment and acquisition opportunities in the subsea sector.

At December 31, 2016 and 2015, our investment in Global was equal to the market value of Global's ordinary shares as follows (in thousands, except for closing price and exchange rate amounts):

	December 31, 2016		December 31, 2015	
Shares of Global Stock Held by HKN		12,805		12,805
Closing Price of Global Stock	£	0.23	£	0.24
Foreign Currency Exchange Rate		1.2338		1.4763
Market Value of Investment in Global	$	3,634	$	4,537

The foreign currency translation adjustment of approximately $756 thousand and the unrealized loss on investment of $147 thousand for the changes in market value between the two periods were recorded to other comprehensive loss in stockholders' equity during the year ended December 31, 2016.

As of December 31, 2016 we had a cumulative unrealized loss position on our investment in Global of $6.3 million. Therefore, we assessed the decline in market value to determine whether it was considered a temporary or other-than-temporary impairment. After reviewing Global's most recent published annual and interim reports and press releases, we noted that Global's net asset value per share continued to exceed our cost basis per share. In addition with consideration of our intent and ability to hold the investment, we determined the impairment to be temporary as of December 31, 2016. However, we will continue to evaluate whether this investment is impaired in each subsequent reporting period until either the investment experiences a recovery of fair value up to its cost or the decline is considered to be an other-than-temporary impairment loss. The following table shows the gross unrealized losses and fair values for investments in an unrealized loss position, deemed to be temporary, and the length of time they have been in the position as of December 31, 2016 (in thousands):

	December 31, 2016					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale securities:						
Investment in Global	$ -	$ -	$ 3,634	$ (6,345)	$ 3,634	$ (6,345)
Total	$ -	$ -	$ 3,634	$ (6,345)	$ 3,634	$ (6,345)

	December 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale securities:						
Investment in Global	$ 4,537	$ (5,442)	$ -	$ -	$ 4,537	$ (5,442)
Total	$ 4,537	$ (5,442)	$ -	$ -	$ 4,537	$ (5,442)

(5) NOTE RECEIVABLE – RELATED PARTY

In September 2015, the Company and Global, a related party, extended a $10 million secured, short-term bridge financing loan to Everest Hill Group, Inc. ("Everest Hill"), the Company's controlling stockholder. Everest Hill beneficially owned 67.62% of the combined voting power of our common stock as of December 31, 2016. We loaned $2 million of the total loan amount, and Global loaned the remaining $8 million. The loan had an annual interest rate of 12%, which was payable monthly. The loan was secured by the pledge of 264,323 shares of our common stock and 9,378,638 ordinary shares of Global owned by Everest Hill and its subsidiaries. We own approximately 35% of Global's outstanding ordinary shares as of December 31, 2016.

In March 2016, Global loaned Everest Hill an additional $2 million. During 2016, the maturity date of the loan was extended from March 15, 2016 to November 15, 2016. In October 2016, we received $2 million in consideration for the assignment of our interest in the Everest Hill loan to Global which repayed the outstanding balance of our note receivable.

We received interest payments from Everest Hill of approximately $208 thousand and recognized deferred origination fees of $17 thousand for the year ended December 31, 2016.

(6) FAIR VALUE MEASUREMENTS

We account for certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels:

- Level 1 – Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.

- Level 2 – Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the asset or liability being measured.

- Level 3 – Valuation inputs are unobservable and significant to the fair value measurement.

Fair Values: Recurring – The following tables present recurring financial assets which are carried at fair value as of December 31, 2016 and 2015 (in thousands):

	December 31, 2016		
	Level 1	**Level 2**	**Level 3**
Investment in Global (1)	$ 3,634	$ -	$ -

	December 31, 2015		
	Level 1	**Level 2**	**Level 3**
Investment in Global (1)	$ 4,537	$ -	$ -

(1) Global's ordinary shares are publicly traded on the Alternative Investment Market ("AIM"), a market operated by the London Stock Exchange, with quoted prices in active markets. Accordingly, the fair value measurements of these securities have been classified as Level 1.

Fair Values: Nonrecurring – The following table shows the fair values and non-cash impairments of long-lived assets, measured on a nonrecurring basis as of December 31, 2016 (in thousands).

	December 31, 2016	
	Fair Value	Impairment
Arctic Star plant	$ 1,672	$ 3,370
Patents	$ 628	$ 459

The fair value of the Arctic Star plant was determined as of September 30, 2016 by an independent third-party valuation using the discounted cash flow method. This methodology uses significant unobservable inputs such as estimated commodity pricing using futures price strips, anticipated feedstock available and timing of the plant start up and consistent operations. Accordingly, the fair value measurements of these assets have been classified as Level 3. As a result of this fair value determination, we recognized an impairment loss of approximately $3.4 million as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2016. No impairment loss was recognized on the Arctic Star plant during 2015.

The fair value of the patents was determined as of December 31, 2016 by an independent third-party valuation using the cost approach. This methodology uses significant unobservable inputs to determine replacement cost. Accordingly, the fair value measurements of these assets have been classified as Level 3. As a result of this fair value determination, we recognized an impairment loss of $459 thousand as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2016. No impairment loss was recognized on the patents during 2015.

The following table shows the fair values and non-cash impairments of long-lived assets, by major category, measured on a nonrecurring basis as of December 31, 2015 (in thousands).

	December 31, 2015	
	Fair Value	Impairment
Oil and gas property -proved	$ 623	$ 928
Oil and gas property -unproved	$ -	$ 77

The fair value of the oil and gas properties was determined using the discounted cash flow method using significant unobservable inputs to determine future cash flows, which were based on management's estimates using reserve and production estimates made by our reservoir engineers, estimated commodity prices as of the reporting date adjusted for quality and location differentials, and forecasted operating expenses and timing of investments for the remaining estimated life of the reservoir. Accordingly, the fair value measurements of these assets have been classified as Level 3. As a result of this fair value determination, we recognized impairment losses of $928 thousand on proved properties and $77 thousand on unproved properties as a component of operating expenses within the HKN operating segment of our consolidated statements of operations for the year ended December 31, 2015.

(7) DISCONTINUED OPERATIONS

As a result of the sales of our Gulf Coast oil and gas properties and the abandonment of our coalbed methane projects during 2011, all related activities are included as discontinued operations on the consolidated balance sheets and consolidated statements of operations for all periods presented.

There were no assets of discontinued operations at December 31, 2016 and 2015.

The carrying amounts of the major classes of liabilities for our discontinued oil and gas operations are summarized below (in thousands):

	December 31, 2016	December 31, 2015
Current Liabilities:		
Revenues and royalties payable	2	23
Accrued liabilities and other	1	3
Total Current Liabilities	3	26
Total Liabilities of Discontinued Operations	$ 3	$ 26

Cash used by discontinued operations during the year ended December 31, 2016 is mainly related to legal costs associated with the Cameron Parish litigation. See Note 14 – "Commitments and Contingencies" for additional information.

Upon resolution of the legacy litigation matters, no significant activities are expected related to these discontinued operations.

There were no revenues from our Gulf Coast oil and gas properties recognized during the years ended December 31, 2016 and 2015. We had losses from discontinued operations of $19 thousand and $241 thousand for the years ended December 31, 2016 and 2015, respectively, primarily related to legal costs we continue to incur for litigation matters related to the oil and gas properties we sold in 2011.

No disposal-related gains or losses were recognized for the years ended December 31, 2016 and 2015.

(8) INCOME TAXES

We did not recognize any current or deferred tax benefit during the years ended December 31, 2016 or 2015. The following is a reconciliation of the reported amount of income tax benefit for the years ended December 31, 2016 and 2015 to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations:

	Years Ended December 31, 2016	2015
	(in thousands)	
Statutory tax benefit	$ (1,911)	$ (2,208)
Increase in valuation allowance		
Change in valuation allowance	1,908	2,205
Effect of permanent differences and other	3	3
Total tax benefit	$ -	$ -

At December 31, 2016, we had available for U.S. federal income tax reporting purposes, a net operating loss (NOL) carryforward for regular tax purposes of approximately $113 million which expires in varying amounts during the tax years 2018 through 2036, an alternative minimum tax NOL carryforward of approximately $100 million which expires in varying amounts during the tax years 2018 through 2036, and a statutory depletion carryforward of approximately $9 million which can be carried forward indefinitely to offset our future taxable income, subject to certain limitations imposed by the Internal Revenue Code. In 2003, we underwent a change in ownership, within the meaning of Internal Revenue Code Section 382, which significantly restricts our ability to utilize our domestic NOLs. As of December 31, 2016, approximately $60 million of our NOLs are restricted.

The components of our federal deferred income taxes were as follows for the years ended December 31, 2016 and 2015:

	2016	2015
	(in thousands)	
Deferred tax assets:		
Net operating losses (NOL) carryover	$ 38,445	$ 37,767
Depletion carryover	3,020	3,020
Share based compensation	-	100
Deferred book liabilities	1	1
Debt and lease obligations	-	18
Loan origination fees	-	6
Book vs. tax basis in investments	26,157	25,850
Property and equipment	5,649	4,402
Total gross deferred tax assets	73,272	71,164
Deferred tax liabilities:		
Property and equipment	-	-
Net deferred tax assets	73,272	71,164
Less valuation allowances	(73,272)	(71,164)
Deferred tax liabilities, net of valuation allowance	$ -	$ -

Our policy is to recognize potential interest and penalties accrued related to unrecognized tax benefits within income tax expense. The tax years 2013-2016 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject. The tax years 2012-2016 also remain open for examination purposes for the Texas Franchise tax.

(9) STOCKHOLDERS' EQUITY

Common Stock - We have authorized 2 million shares of $.01 par value common stock. At December 31, 2016 and 2015, we had 390,916 shares issued and outstanding.

Treasury Stock – At December 31, 2016 and 2015, we held no shares of treasury stock. In January 2013, we announced that our Board of Directors authorized the cancellation of our amended September 2005 stock repurchase plan and authorized a new stock repurchase program which allows us to buy back up to 45 thousand shares of our common stock. During the years ended December 31, 2016 and 2015, we did not purchase or retire any shares of our common stock. As of December 31, 2016, 582 shares remained available for repurchase under our repurchase program.

(10) BWI STOCK COMPENSATION

In April 2012, our wholly-owned subsidiary, BWI, adopted a 2012 Equity Compensation Plan (the "BWI Plan"), which is administered by the Compensation Committee (the "Committee") of the HKN Board of Directors. The Committee has complete and absolute authority to make any and all decisions regarding the administration of the BWI Plan, and all employees of BWI, HKN and its subsidiaries are eligible to receive awards under the BWI Plan. An aggregate of 100,000 shares of common stock of BWI (10% of BWI's currently outstanding shares of common stock) have been reserved for potential award issuance under the BWI Plan. Subsequent to the year ended December 31, 2016, we completed a 1 for 1,000 reverse stock split of BWI's common stock. The reverse stock split was initiated to reduce the number of authorized BWI stock in Delaware to 1,000 shares. None of the share numbers or share prices set forth in this Note 10 have been adjusted to give effect to the reverse split.

Awards under the BWI Plan are granted in the form of nonqualified stock options. The Committee also has complete and absolute authority to set the terms, conditions and provisions of each award, including the size of the award, the exercise or base price, the vesting and exercisability schedule (including provisions regarding acceleration of vesting and exercisability) and termination, cancellation and forfeiture provisions, subject to limitations on the exercise price and term under the BWI Plan. In particular, the exercise price for a stock option granted under the BWI Plan may not be less than 100% of the fair market value of the stock on the award date, and no stock option granted under the BWI Plan may expire more than ten years after the award date.

In April 2012, 40 thousand options were granted to BWI officers and directors with an exercise price of $14.50 per share of BWI common stock and a vesting period of three years, with one third of the options vesting on the first, second and third anniversaries of the grant date. The grant date fair value of the stock of $14.50 per share was based on an independent third-party valuation. This valuation used the income approach method based on a discounted forecasted cash flow analysis.

In December 2013, 24.5 thousand options were granted to BWI directors, officers and employees with an exercise price of $31.60 per share of BWI common stock and a vesting period of three years, with one third of the options vesting on the first, second and third anniversaries of the grant date. The grant date fair value of the stock of $31.60 per share was based on an independent third-party valuation. This valuation used the income approach method based on a discounted forecasted cash flow analysis.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period, using the straight-line method. The weighted average grant date fair value of each stock option granted in April 2012 and December 2013 was $8.56 and $16.89, respectively. The fair value of each option at the grant date was estimated by using the Black-Scholes option-pricing model using the following weighted average assumptions:

	Grant Date	
	December 2013	April 2012
Expected dividend yield	0.00%	0.00%
Expected volatility	56.00%	65.00%
Expected volatility	56.00%	65.00%
Expected life (in years)	6.00	6.00
Risk free interest rate	1.86%	1.29%

We estimate the expected dividend yield to be zero because we do not anticipate paying dividends out of BWI. Because BWI is not publicly traded, the expected volatility is based on an average historical and implied volatility for comparable public reporting companies over a period similar to the expected life of the options. Expected life is based on the simplified method of computing an average of the vesting periods and the contractual term, and the risk-free interest rate represents the published interest rate for a comparable term US Treasury Bond on the grant date.

We are also required to estimate forfeitures at the time of grant, and to revise those estimates in subsequent periods if actual forfeitures differ from our estimates as a cumulative adjustment in the period of revision. Stock compensation is recorded only for those awards that are expected to vest. No forfeiture rate was applied during the years ended December 31, 2016 and 2015.

In April 2016, our Board of Directors approved the termination of our stock option plan. This is a result of BWI's operational facilities not being able to be deployed until economic conditions improve and accordingly the original purposes of the BWI Plan are unable to be achieved within the foreseeable future. Prior to the termination, option grantees signed a surrender agreement which contained an offer to pay the grantee $1.80 per option awarded in April 2012 and $0.68 per option awarded in December 2013. This value represents a 50% discount to the current option valuation as calculated using the Black-Scholes model. As a result of the termination we paid $21 thousand in cash to the option grantees and recognized $45 thousand in stock compensation expense in our consolidated statement of operations related to unvested shares that were included in the surrender agreement.

The following table summarizes stock option activity during the year ended December 31, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	30,000	$ 21.34		
Granted	-	-		
Exercised	-	-		
Forfeited or Expired	-	-		
Cancelled	(30,000)	21.34		
Outstanding at December 31, 2016	-	$ -	-	$ -
Exercisable at December 31, 2016	-	$ -	-	$ -

The following table summarizes nonvested option activity during the year ended December 31, 2016:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	4,000	$ 16.89
Granted	-	-
Vested	-	-
Forfeited	-	-
Cancelled	(4,000)	16.89
Nonvested at December 31, 2016	-	$ -

Total stock-based compensation recognized within selling, general and administrative expenses in the Company's consolidated statements of operations was an expense of $62 thousand for the year ended December 31, 2016 and a benefit of $59 thousand for the year ended December 31, 2015. The benefit for 2015 was a result of the forfeiture of 20.5 thousand shares during 2015 and the reversal of $153 thousand in stock-based compensation related to those shares

(11) RELATED PARTY TRANSACTIONS

We continue to hold ordinary shares of Global, which is a related party. Our CEO, Mikel Faulkner, serves as Chairman of Global. See Note 4 – "Investment in Global" for additional information.

In April 2015, we entered into a Services Agreement with Quadrant Management, Inc. ("Quadrant"), which is a related party. Our Chairman, Alan Quasha, is a Director and President of Quadrant. Under the Services Agreement, we received fees for professional services performed by our personnel as well as reimbursement for direct costs. These service fees were recorded as an adjustment to general, selling and administrative expenses within our consolidated statements of operations. During the year ended December 31, 2016 we did not record any service fees and incurred $194 thousand in billable costs for which we were not reimbursed. We recognized these unreimbursed costs as an increase to general, selling and administrative expenses. We recognized service fees of $489 thousand for the year ended December 31, 2015, as a reduction to general, selling and administrative expenses. At December 31, 2015, we had $217 thousand within accounts receivable - related party for services performed during November and December 2015. We collected this receivable during the first quarter 2016. The Services Agreement was terminated in February 2016.

In August 2015, we entered into a Services Agreement with Global. Under the Services Agreement, we receive fees for professional services performed by our personnel. These service fees are recorded as a reduction to general, selling and administrative expenses within our consolidated statements of operations. There were no service fees recorded during the year ended December 31, 2016. For the year ended December 31, 2015, we recorded gross service fees of $49 thousand as a reduction to general, selling and administrative expenses, of which $7 thousand were recorded within accounts receivable-related party on our consolidated balance sheets.

In September 2015, we and Global extended a short-term secured loan to Everest Hill, the Company's controlling stockholder. See Note 5 – "Note Receivable – Related Party" for additional information.

We had no additional related party transactions during the year ended December 31, 2016.

(12) SEGMENT INFORMATION

We currently have one reportable segment consisting of our investment in BWI which is managed separately. Our BWI operating segment owns a patented oilfield emulsion breaking technology. This is a continuous process technology that can process oilfield emulsions by breaking and separating the emulsions into oil, water and solids, thereby reducing the environmental impact and disposal costs of the waste materials while recovering valuable oil. See Note 2 – "BriteWater International, Inc." for further discussion.

We have included activity of our parent company, HKN, in our disclosure to reconcile to our consolidated operating loss and total assets. HKN includes our investment in Global, our non-operated working interests in properties held by HBI, mineral interests held by HTH, performance of general corporate activities such as corporate reporting and governance, financing, management and growth of current operations and the evaluation of new investment opportunities. Our accounting policies for each of our operating segments are the same as those for our consolidated financial statements. Intersegment interest income and intersegment expenses between our parent company and BWI have been eliminated in consolidation. There were no material intersegment sales or transfers for the periods presented.

Our financial information, expressed in thousands, for each of our operating segments for the years ended December 31, 2016 and 2015 is as follows:

	Year Ended December 31, 2016			
	HKN	BWI	Eliminations	Consolidated
Oil and gas revenues	$ 385	$ -	$ -	$ 385
Oil and gas operating expenses	(124)	-	-	(124)
Arctic Star plant operating expenses	-	(268)	-	(268)
Selling, general and administrative expenses	(2,137)	(221)	-	(2,358)
Depreciation, depletion and amortization	(212)	(590)	-	(802)
Impairment	-	(3,829)		(3,829)
Interest and other expenses	(167)	(2)	-	(169)
Interest and other income - related parties	215	-	-	215
Interest and other income	1,328	-	-	1,328
Segment loss from continuing operations	$ (712)	$ (4,910)	$ -	$ (5,622)
Capital Expenditures	$ 54	$ -	$ -	$ 54
Total Assets	$ 10,714	$ 2,385	$ (1,682)	$ 11,417

	Year Ended December 31, 2015			
	HKN	BWI	Eliminations	Consolidated
Oil and gas revenues	$ 542	$ -	$ -	$ 542
Oil and gas operating expenses	(160)	-	-	(160)
Arctic Star plant operating expenses	-	(750)	-	(750)
Selling, general and administrative expenses	(3,677)	(237)	-	(3,914)
Depreciation, depletion and amortization	(401)	(790)	-	(1,191)
Impairment	(1,005)	-		(1,005)
Interest and other expenses	-	(240)	153	(87)
Interest and other income - related parties	246	-	(153)	93
Interest and other income	123	-	-	123
Gain (loss) on sale of assets	12	(156)	-	(144)
Segment loss from continuing operations	$ (4,320)	$ (2,173)	$ -	$ (6,493)
Capital Expenditures	$ 148	$ 417	$ -	$ 565
Total Assets	$ 12,562	$ 6,812	$ (1,146)	$ 18,228

(13) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share includes no dilution and is computed by dividing income or loss attributed to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if security interests were exercised or converted into common stock.

The following table sets forth the computation of basic and diluted loss per share for the years ended December 31, 2016 and 2015 (in thousands, except per share data):

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Net Loss Attributed to Common Stock	Weighted-Average Shares	Per Share Loss	Net Loss Attributed to Common Stock	Weighted-Average Shares	Per Share Loss
Basic EPS:						
Loss from continuing operations	$ (5,622)		$ (14.38)	$ (6,493)		$ (16.61)
Loss from discontinued operations	(19)		(0.05)	(241)		(0.62)
Net loss attributed to common stock	$ (5,641)	391	$ (14.43)	$ (6,734)	391	$ (17.23)
Effect of dilutive securities						
Preferred stock (1)	-	-	-	-	-	-
Diluted loss per share	$ (5,641)	391	$ (14.43)	$ (6,734)	391	$ (17.23)

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(1) In December 2014, we repurchased all outstanding shares of our Series G1 and Series G2 preferred stock. As a result, there is no dilutive effect for the years ended December 31, 2016 and 2015.

(14) COMMITMENTS AND CONTINGENCIES

Leases - We lease our corporate office space. Office operating lease payments were $85 thousand and $215 thousand for the years ended December 31, 2016 and 2015, respectively. Total site lease payments for our Arctic Star plant were $100 thousand for both the years ended December 31, 2016 and 2015. In addition, we had two capital equipment leases related to our Arctic Star plant which began in 2014. Equipment from one of our capital leases was purchased in May 2015 and the other capital lease ended in February 2016. Capital lease payments were $82 thousand and $418 thousand for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, we had no material purchase obligations. Future minimum rental payments required under all leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2016 are as follows (in thousands):

Year	Operating Leases (1)
2017	$ 133
2018	75
2019	-
2020	-
Thereafter	-
Total	$ 208

(1) Consists of our corporate office lease and site lease for the Arctic Star plant.

SLFPA-E Litigation – On July 24, 2013, Plaintiff Board of Commissioners of the Southeast Louisiana Flood Protection Authority—East ("SLFPA-E") filed a lawsuit in the Civil District Court for the Parish of Orleans, Louisiana, a Louisiana state court, seeking damages against over 90 oil and gas and pipeline companies. Generally the lawsuit alleges that activities by defendants—primarily but not exclusively the dredging of canals—have made it more difficult for the SLFPA-E to protect the New Orleans metropolitan area from flooding. The petition alleges that HKN, Inc. is "by virtue of [one or more of] mergers, acquisitions, name changes, etc., responsible for" the actions of Tejas Power Corporation, which is alleged to have obtained in the 1980s certain dredging permits and rights of way. HKN, Inc. disputes that it is responsible for any actions of Tejas Power Corporation. The public record appears to suggest that Tejas Power Corporation may have been a subsidiary of Harken Oil and Gas, Incorporated (a previous name of HKN, Inc.) for a few years in the 1980s and 1990s. However, we do not believe HKN, Inc. would have liability for the actions of Tejas Power Corporation. The case was removed to federal court and the defendants filed a joint motion to dismiss during September 2014. On February 13, 2015, the court signed an order ruling in favor of the defendants and dismissing all claims. The court ruled that the SLFPA-E's lawsuit failed to state a viable claim against the defendants primarily because: (a) the statutes upon which SLFPA-E based its claims (the Rivers and Harbors Act, the Clean Water Act, and the Coastal Zone Management Act) did not create a duty on behalf of the defendants for the protection or benefit of the SLFPA-E; and (b) the SLFPA-E was not a third party beneficiary to the federal permits received by the defendants. On February 24, 2015, SLFPA-E filed an appeal of the lower court's ruling and oral argument was held on February 29, 2016 before the United States Fifth Circuit Court of Appeals. The parties are still awaiting a decision from the United States Fifth Circuit Court of Appeals. Accordingly, at December 31, 2016, we did not record a contingency related to this matter.

Cameron Parish Litigation – On February 9, 2016, the State of Louisiana and the Parish of Cameron filed suit in the 38th Judicial District Court for the Parish of Cameron, State of Louisiana, seeking damages against XPLOR Energy Operating Company, Inc. ("XPLOR Operating Company") and approximately 35 other defendants in a case entitled *The Parish of Cameron v. BEPCO, L.P. et al.*, case number 10-19572. The plaintiffs allege that the defendants' oil and gas operations exceeded the authority granted to the defendants in various Coastal Use Permits and that the defendants' operations caused damage to property located within the Louisiana Coastal Zone in Cameron Parish, Louisiana. Shortly after the suit was filed, the Louisiana Attorney General and the Louisiana Department of Natural Resources intervened in the lawsuit asserting similar claims. On April 21, 2016, several of the defendants removed the lawsuit to the United States District Court for the Western District of Louisiana in Lake Charles. The plaintiffs filed a motion to remand the case back to the 38th Judicial District Court, and the removing defendants have filed oppositions to the motion to remand. The Federal District Court has stayed further proceedings on plaintiffs' motion to remand pending a ruling from the United States Fifth Circuit Court of Appeals in the SLFPA-E Litigation. XPLOR Operating Company disputes the plaintiffs' allegations as they relate to XPLOR Operating Company and its operations. XPLOR Operating Company denies that its operations caused any damage alleged by the plaintiffs, and XPLOR Operating Company denies that it exceeded any Coastal Use Permits that it obtained. Accordingly, at December 31, 2016, we did not record a contingency related to this matter.

Louisiana Limited Scope Audit – In April 2012, we received notice from the State of Louisiana Department of Revenue that our discontinued oil and gas subsidiary, XPLOR Operating Company, was the subject of a limited scope sales tax audit focused on the company's on-site use and consumption of lease gas in connection with its lease, gathering and pipeline operations from January 1, 2006 through June 30, 2009. The Louisiana Department of Revenue issued a preliminary assessment, or "Notice of Proposed Tax Due," preliminarily assessing sales tax of $194 thousand and related penalties and interest of $181 thousand, resulting in a total assessment of $375 thousand. In July 2012, we filed an audit protest with the Louisiana Department of Revenue challenging the preliminary assessment, as we do not agree with the legal basis of the assessment or the methodology in which the taxes were calculated and plan to vigorously defend our position. Due to the inherent uncertainties of the audit protest and preliminary assessment, we cannot accurately predict the ultimate outcome of the matter. Accordingly, at December 31, 2016, we did not record a contingency related to this matter. In the event of a negative outcome, the potential loss related to the audit and preliminary assessment is currently estimated not to exceed $375 thousand.