Unaudited Interim Financial Statements and Accompanying Notes for the Nine Months Ended September 30, 2016 and 2015



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

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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HKN, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

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

	September 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,977	$ 3,646
Accounts receivable	125	123
Accounts receivable - related party	10	247
Short term note receivable - related party, net of deferred transaction fees of $17 thousand at December 31, 2015	2,000	1,983
Prepaid expenses and other current assets	215	163
Total Current Assets	5,327	6,162
Oil and gas property, using the successful efforts method of accounting	2,050	2,022
Arctic Star plant	2,497	5,867
Office equipment and other	185	283
Accumulated depreciation and depletion	(2,448)	(2,043)
Total Property and Equipment, net	2,284	6,129
Intangible assets, net	1,134	1,271
Investment in Global	3,791	4,537
Other assets	82	129
Total Assets	$ 12,618	$ 18,228
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade payables	$ 14	$ 76
Liabilities of discontinued operations	5	26
Capital lease obligation - short term	-	52
Accrued liabilities and other	167	221
Total Current Liabilities	186	375
Asset retirement obligation	3	2
Total Liabilities	189	377
Commitments and Contingencies (Note 11)		
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	(431,131)	(426,414)
Accumulated other comprehensive loss	(6,188)	(5,442)
Total Stockholders' Equity	12,429	17,851
Total Liabilities and Stockholders' Equity	$ 12,618	$ 18,228

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

HKN, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

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

	Nine Months Ended September 30,	
	2016	**2015**
Revenues:		
Oil and gas operations	$ 288	$ 376
Total revenues	288	376
Operating costs and expenses:		
Oil and gas operating	91	124
Arctic Star plant operating	220	632
Selling, general and administrative	1,700	3,149
Depreciation, depletion and amortization	651	840
Impairment	3,370	-
Total operating costs and expenses	6,032	4,745
Loss from operations	(5,744)	(4,369)
Other income and expenses:		
Interest and other expenses	(169)	(80)
Interest and other income - related party	197	13
Interest and other income	1,017	21
Total other income (expense)	1,045	(46)
Loss from continuing operations	(4,699)	(4,415)
Loss from discontinued operations	(18)	(116)
Net loss	$ (4,717)	$ (4,531)
Loss per common share from continuing operations	$ (12.02)	$ (11.29)
Loss per common share from discontinued operations	(0.05)	(0.30)
Net loss per common share, basic and diluted	$ (12.07)	$ (11.59)
Weighted average common shares outstanding:		
Basic and diluted	390,916	390,916

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

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

	Nine Months Ended September 30,	
	2016	**2015**
Net loss	$ (4,717)	$ (4,531)
Foreign currency translation adjustments	(567)	(281)
Unrealized loss on investments	(179)	(4,376)
Other comprehensive loss	(746)	(4,657)
Comprehensive loss	$ (5,463)	$ (9,188)

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

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

	Nine Months Ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (4,717)	$ (4,531)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	651	840
Stock-based compensation expense (benefit)	62	(76)
Gain on sale of assets	-	(1)
Amortization of note receivable - related party transaction fee	(17)	(3)
Impairment	3,370	-
Other	-	5
Change in operating assets and liabilities:		
Accounts receivable and accounts receivable - related party	263	(132)
Prepaid assets and other	(52)	35
Trade payables and other	(116)	(237)
Net cash used in operating activities - continuing operations	(556)	(4,100)
Net cash used in operating activities - discontinued operations	(21)	(3,173)
Net cash used in operating activities	(577)	(7,273)
Cash flows from investing activities:		
Capital expenditures	(51)	(546)
Net proceeds from sales of assets	31	44
Issuance of note receivable to related party, net of origination fee of $40K	-	(1,960)
Net cash used in investing activities	(20)	(2,462)
Cash flows from financing activities:		
Principal payments on note payable obligations	-	(63)
Principal payments on capital lease obligations	(52)	(234)
Settlement of stock options	(20)	-
Net cash used in financing activities	(72)	(297)
Net decrease in cash and cash equivalents	(669)	(10,032)
Cash and cash equivalents at beginning of period	3,646	14,502
Cash and cash equivalents at end of period	$ 2,977	$ 4,470
Supplemental cash disclosures:		
Cash paid for interest	$ 4	$ 84

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

(1) BASIS OF PRESENTATION

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").

Our accompanying consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). Certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to these principles, although we believe that the disclosures made are adequate to prevent the information presented from being misleading. In our opinion, these consolidated condensed financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2016 and December 31, 2015, the results of our operations for the nine months ended September 30, 2016 and 2015 and changes in our cash flows for the nine months ended September 30, 2016 and 2015. The December 31, 2015 consolidated condensed balance sheet information is derived from audited financial statements. All adjustments represent normal recurring items. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report of Independent Registered Public Accounting Firm and Financial Statements and Accompanying Notes for the Years Ended December 31, 2015 and 2014. Certain prior year amounts have been reclassified to conform to the 2016 presentation.

The preparation of financial statements in conformity with 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.

Principles of Consolidation – The consolidated condensed 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 condensed balance sheets, consolidated condensed statements of operations and consolidated condensed statements of cash flows for all periods presented.

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 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 September 30, 2016
Investment in Global	$ (5,056)	$ (179)	$ (5,235)
Foreign Currency Translation Adjustments	(386)	(567)	(953)
	$ (5,442)	$ (746)	$ (6,188)

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 condensed 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.

Property and Equipment – We recorded depreciation expense related to other property and equipment of $48 thousand and $56 thousand for the nine months ended September 30, 2016 and 2015, respectively. Depreciation, depletion and amortization expense for oil and gas producing properties and related equipment was $112 thousand and $164 thousand for the nine months ended September 30, 2016 and 2015, respectively. We recorded depreciation expense related to the Arctic Star plant of $354 thousand and $475 thousand for the nine months ended September 30, 2016 and 2015, respectively. Of the depreciation expense for the nine months ended September 30, 2015, assets under capital lease accounted for $98 thousand.

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 condensed balance sheets at December 31, 2015. At September 30, 2016 and December 31, 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 condensed 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 $79 thousand for the nine months ended September 30, 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 have recorded amortization expense related to these patents of $137 thousand and $145 thousand for the nine months ended September 30, 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 condensed statements of operations.

Investment in Global – 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 nine months ended September 30, 2016. See Note 4 – "Investment in Global" for further discussion.

Other Assets – At September 30, 2016, other assets included $22 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.

Accrued Liabilities and Other – At September 30, 2016, accrued liabilities and other included approximately $82 thousand in accrued capital, operating and other liabilities related to the oil and gas properties and $20 thousand in accrued operating costs related to the Arctic Star plant.

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 asset retirement obligation is a non-recurring Level 3 fair value measurement and was $3 thousand at September 30, 2016 and $2 thousand at December 31, 2015. Changes to the liability during the nine months ended September 30, 2016 were negligible.

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 condensed 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.

We are also required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from 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 nine months ended September 30, 2016 and 2015. During the first and third quarters 2015, a total of 20.5 thousand shares were forfeited and stock compensation expense of $153 thousand was reversed for those shares.

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 recognized $45 thousand in stock compensation expense in our consolidated condensed statement of operations related to unvested shares that were included in the surrender agreement.

Total stock-based compensation recognized within selling, general and administrative expenses in the Company's consolidated condensed statements of operations was an expense of $62 thousand for the nine months ended September 30, 2016, and a benefit of $76 thousand for the nine months ended September 30, 2015 as a result of the forfeitures during the first and third quarters 2015.

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 condensed statements of operations. Please see Note 6 – "Fair Value Measurements" for additional information.

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.

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 condensed 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 condensed 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 1 – "Basis of Presentation" for additional information) this standard is not expected to have any impact on our consolidated condensed 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 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 condensed 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 condensed 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 condensed statements of operations as of September 30, 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.

(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 2016 and anticipate we will participate in few wells. During the nine months ended September 30, 2016, we had capital expenditures of $9 thousand.

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 condensed 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 interest and other income in our consolidated condensed statements of operations.

HTH - HTH holds mineral interests previously owned by former subsidiaries. During the nine months ended September 30, 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 condensed statements of operations. During the nine months ended September 30, 2016, we also sold oil and gas property in Texas and Oklahoma for combined proceeds of $694 thousand. The proceeds from these sales was recognized within interest and other income in our consolidated condensed statements of operations due to these properties having no carrying value in our consolidated condensed balance sheets as of September 30, 2016 and December 31, 2015.

Subsequent to the period ended September 30, 2016, we sold oil and gas property in Lea County, New Mexico for proceeds of $19 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 September 30, 2016. We did not purchase any additional shares of Global during the nine months ended September 30, 2016.

At September 30, 2016 and December 31, 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):

	September 30, 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	1.3013	1.4763
Market Value of Investment in Global	$ 3,791	$ 4,537

The foreign currency translation adjustment of approximately $567 thousand and the unrealized loss on investment of $179 thousand for the changes in market value between the two periods were recorded to other

comprehensive loss in stockholders' equity during the nine months ended September 30, 2016.

As of September 30, 2016 we had a cumulative unrealized loss position on our investment in Global of $6.2 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 September 30, 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 September 30, 2016 (in thousands):

	September 30, 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	$ -	$ -	$ 3,791	$ (6,188)	$ 3,791	$ (6,188)
Total	$ -	$ -	$ 3,791	$ (6,188)	$ 3,791	$ (6,188)

	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 September 30, 2016. We loaned $2 million of the total loan amount, and Global loaned the remaining $8 million. The principal amount of the loan was originally payable in full on March 15, 2016, however, in March 2016, the maturity date was extended to September 15, 2016 and Global loaned Everest Hill an additional $2 million. In September 2016, the maturity date was further extended to October 15, 2016 and in October 2016, the maturity date was further extended to November 15, 2016. The loan bears interest which is payable monthly at the annual rate of 12%. The loan is 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. As of September 30, 2016, we own approximately 35% of Global's outstanding ordinary shares.

Subsequent to the period ended September 30, 2016, we received $2 million in consideration for the assignment of our interest in the Everest Hill loan to Global.

We received interest payments from Everest Hill of approximately $180 thousand and recognized deferred origination fees of $17 thousand for the nine months ended September 30, 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 September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016		
	Level 1	Level 2	Level 3
Investment in Global (1)	$ 3,791	$ -	$ -

	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 September 30, 2016 and December 31, 2015 (in thousands). These impairment losses are recognized as a component of operating expenses within our consolidated condensed statements of operations.

	September 30, 2016		December 31, 2015	
	Fair Value	Impairment	Fair Value	Impairment
Arctic Star plant	$ 1,672	$ 3,370	$ 5,396	$ -

The fair value of the Arctic Star plant was determined 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 $3.4 million as a component of

operating expenses within the BWI operating segment of our consolidated condensed statements of operations for the nine months ended September 30, 2016.

(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 condensed balance sheets and consolidated condensed statements of operations for all periods presented.

There were no assets of discontinued operations at September 30, 2016 or December 31, 2015.

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

	September 30, 2016	December 31, 2015
Current Liabilities:		
Trade payables	$ 1	$ -
Revenues and royalties payable	2	23
Accrued liabilities and other	2	3
Total Current Liabilities	5	26
Total Liabilities of Discontinued Operations	$ 5	$ 26

Cash used by discontinued operations during the nine months ended September 30, 2016 is mainly related to legal costs associated with the Cameron Parish litigation. See Note 11 – "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 nine months ended September 30, 2016 and 2015. We had losses from discontinued operations of $18 thousand and $116 thousand for the nine months ended September 30, 2016 and 2015, respectively, primarily related to legal costs we continue to incur for litigation and regulatory matters related to the oil and gas properties we sold in 2011.

No disposal-related gains or losses were recognized for the nine months ended September 30, 2016 and 2015.

(8) 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 condensed 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 nine months ended September 30, 2016 and 2015 is as follows:

	Nine Months Ended September 30, 2016			
	HKN	BWI	Eliminations	Consolidated
Oil and gas revenues	$ 288	$ -	$ -	$ 288
Oil and gas operating expenses	(91)	-	-	(91)
Arctic Star plant operating expenses	-	(220)	-	(220)
Selling, general and administrative expenses	(1,513)	(187)	-	(1,700)
Depreciation, depletion and amortization	(160)	(491)	-	(651)
Impairment	-	(3,370)		(3,370)
Interest and other expenses	(167)	(2)	-	(169)
Interest and other income - related parties	197	-	-	197
Interest and other income	1,017	-	-	1,017
Segment loss from continuing operations	$ (429)	$ (4,270)	$ -	$ (4,699)
Capital Expenditures	$ 51	$ -	$ -	$ 51
Total Assets	$ 11,258	$ 2,982	$ (1,622)	$ 12,618

	Nine Months Ended September 30, 2015			
	HKN	BWI	Eliminations	Consolidated
Oil and gas revenues	$ 376	$ -	$ -	$ 376
Oil and gas operating expenses	(124)	-	-	(124)
Arctic Star plant operating expenses	-	(632)	-	(632)
Selling, general and administrative expenses	(2,984)	(165)	-	(3,149)
Depreciation, depletion and amortization	(214)	(626)	-	(840)
Interest and other expenses	-	(233)	153	(80)
Interest and other income - related parties	166	-	(153)	13
Interest and other income	20	-	-	20
Gain on sale of assets	12	(11)	-	1
Segment loss from continuing operations	$ (2,748)	$ (1,667)	$ -	$ (4,415)
Capital Expenditures	$ 129	$ 417	$ -	$ 546
Total Assets	$ 15,032	$ 7,169	$ (912)	$ 21,289

(9) STOCKHOLDERS' EQUITY

Common Stock - We have authorized 2 million shares of $.01 par value common stock. At September 30, 2016 and December 31, 2015, we had 390,916 shares issued and outstanding.

Treasury Stock – At September 30, 2016 and December 31, 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 nine months ended September 30, 2016, we did not purchase or retire any shares of our common stock. As of September 30, 2016, 582 shares remained available for repurchase under our repurchase program.

Additional Paid in Capital – Additional paid in capital increased by approximately $41 thousand during the nine month period ended September 30, 2016 primarily due to net expenses related to the BWI stock option plan during the period.

(10) EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted loss per share for the nine months ended September 30, 2016 and 2015 (in thousands, except per share data):

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 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	$ (4,699)		$ (12.02)	$ (4,415)		$ (11.29)
Loss from discontinued operations	(18)		(0.05)	(116)		(0.30)
Net loss attributed to common stock	$ (4,717)	391	$ (12.07)	$ (4,531)	391	$ (11.59)
Effect of dilutive securities						
Preferred stock (1)	-	-	-	-	-	-
Diluted loss per share	$ (4,717)	391	$ (12.07)	$ (4,531)	391	$ (11.59)

(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 nine months ended September 30, 2016 and 2015.

(11) COMMITMENTS AND CONTINGENCIES

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 September 30, 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 September 30, 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 $178 thousand, resulting in a total assessment of $372 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 September 30, 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 $372 thousand.

(12) 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 condensed statements of operations. During the nine months ended September 30, 2016 we did not record any service fees and incurred $194 thousand in billable costs for which we have not been

reimbursed. We recognized service fees of $180 thousand for the nine months ended September 30, 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 condensed statements of operations. There were no service fees recorded during the nine months ended September 30, 2016 and 2015 related to the Services Agreement.

In September 2015, we and Global extended a short-term secured loan to Everest Hill, the Company's controlling stockholder. We loaned $2 million of the total loan amount and have $10 thousand of accrued interest recorded within accounts receivable- related party on our consolidated condensed balance sheets. See Note 5 – "Note Receivable – Related Party" for additional information.

We had no additional related party transactions during the nine months ended September 30, 2016.