

**Report of Independent Registered Public Accounting Firm
and Financial Statements
and Accompanying Notes for the
Years Ended December 31, 2015 and 2014**



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

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	3
Consolidated Balance Sheets -- December 31, 2015 and 2014.....	4
Consolidated Statements of Operations -- Years ended December 31, 2015 and 2014.....	5
Consolidated Statements of Comprehensive Loss -- Years ended December 31, 2015 and 2014.....	6
Consolidated Statements of Stockholders' Equity -- Years ended December 31, 2015 and 2014.....	7
Consolidated Statements of Cash Flows -- Years ended December 31, 2015 and 2014.....	8
Notes to Consolidated Financial Statements.....	9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
HKN Inc.

We have audited the accompanying consolidated balance sheets of HKN Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HKN, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

A handwritten signature in blue ink that reads "Kevin E. Associates LLP". The signature is written in a cursive, flowing style.

Dallas, Texas
February 9, 2016

HKN, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except for share and per share amounts)

	December 31, 2015	December 31, 2014
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 3,646	\$ 14,502
Accounts receivable	123	138
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	163	288
Total Current Assets	6,162	14,928
Oil and gas property, using the successful efforts method of accounting	2,022	2,774
Arctic Star plant	5,867	611
Construction in progress - Arctic Star plant	-	5,736
Weathered lagoon plant	-	79
Office equipment and other	283	356
Accumulated depreciation and depletion	(2,043)	(1,304)
Total Property and Equipment, net	6,129	8,252
Intangible assets, net	1,271	1,462
Investment in Global	4,537	9,979
Other assets	129	359
Total Assets	\$ 18,228	\$ 34,980
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities:		
Trade payables	\$ 76	\$ 329
Liabilities of discontinued operations	26	3,237
Notes payable - short term	-	48
Capital lease obligation - short term	52	441
Accrued liabilities and other	221	659
Total Current Liabilities	375	4,714
Asset retirement obligation	2	2
Notes payable - long term	-	15
Capital lease obligation - long term	-	163
Total Liabilities	377	4,894
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	449,703	449,762
Accumulated deficit	(426,414)	(419,680)
Accumulated other comprehensive loss	(5,442)	-
Total Stockholders' Equity	17,851	30,086
Total Liabilities and Stockholders' Equity	\$ 18,228	\$ 34,980

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,	
	2015	2014
Revenues:		
Oil and gas operations	\$ 542	\$ 988
Total revenues	542	988
Operating costs and expenses:		
Oil and gas operating	160	218
Arctic Star plant operating	750	-
Selling, general and administrative	3,914	3,862
Depreciation, depletion and amortization	1,191	807
Impairment losses	1,005	18,129
Gain on BWI contingency	-	(800)
Total operating costs and expenses	7,020	22,216
Loss from operations	(6,478)	(21,228)
Other income and expenses:		
Interest and other expenses	(87)	(166)
Interest and other income - related party	93	1,608
Interest and other income	123	50
Gain (loss) on sale of assets	(144)	30
Impairment loss on investment in Global	-	(937)
Total other income (expense)	(15)	585
Loss from continuing operations	(6,493)	(20,643)
Gain on disposal of discontinued operations	-	41
Loss from discontinued operations	(241)	(3,357)
Net loss	(6,734)	(23,959)
Accrual of dividends related to preferred stock	-	(15)
Payment of preferred stock dividends	-	(63)
Net loss attributed to common stock	\$ (6,734)	\$ (24,037)
Loss per common share from continuing operations	\$ (16.61)	\$ (52.66)
Loss per common share from discontinued operations	(0.62)	(8.43)
Net loss per common share, basic and diluted	\$ (17.23)	\$ (61.09)
Weighted average common shares outstanding:		
Basic and diluted	390,916	393,497

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

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

	Year Ended December 31,	
	2015	2014
Net loss	\$ (6,734)	\$ (23,959)
Foreign currency translation adjustments	(386)	(548)
Unrealized loss on investments	(5,056)	(9,209)
Impairment loss recognized on investment in Global	-	937
Other comprehensive loss	(5,442)	(8,820)
Comprehensive loss	\$ (12,176)	\$ (32,779)

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

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

	Preferred Stock		Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	G1	G2						
Balance, December 31, 2013	\$ 1	\$ 1	\$ 4	\$ 450,394	\$ -	\$ (395,643)	\$ 8,820	\$ 63,577
Stock-based compensation expense	-	-	-	212	-	-	-	212
Accrual of preferred stock dividends	-	-	-	-	-	(15)	-	(15)
Issuance of preferred stock dividends	-	-	-	-	-	15	-	15
Preferred stock repurchase	(1)	(1)	-	-	-	(78)	-	(80)
Treasury stock repurchase	-	-	-	-	(847)	-	-	(847)
Treasury stock retirements	-	-	-	(847)	847	-	-	-
Other	-	-	-	3	-	-	-	3
Comprehensive loss:								
Net loss						(23,959)		
Unrealized loss on available for sale investments							(9,209)	
Unrealized foreign currency loss							(548)	
Impairment loss recognized on investment in Global							937	
Total comprehensive loss								(32,779)
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

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

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net loss	\$ (6,734)	\$ (23,959)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	1,191	807
Stock-based compensation expense (benefit)	(59)	212
Gain on disposal of discontinued operations	-	(41)
Loss contingency on discontinued operations	-	3,165
Loss (gain) on sale of assets	144	(30)
Amortization of note receivable - related party transaction fee	(23)	(177)
Impairment losses	1,005	19,066
Gain on BWI contingency	-	(800)
Other	5	-
Change in operating assets and liabilities:		
Accounts receivable and accounts receivable - related party	(223)	158
Prepaid assets and other	113	(37)
Trade payables and other	(215)	(753)
Net cash used in operating activities - continuing operations	<u>(4,796)</u>	<u>(2,389)</u>
Net cash used in operating activities - discontinued operations	<u>(3,211)</u>	<u>(41)</u>
Net cash used in operating activities	<u>(8,007)</u>	<u>(2,430)</u>
Cash flows from investing activities:		
Capital expenditures	(565)	(7,997)
Purchase of Global shares	-	(422)
Net proceeds from sales of assets	45	271
Issuance of note receivable to related party, net of origination fee of \$40K	(1,960)	-
Repayment of note receivable - related party	-	12,000
Change in restricted cash	-	(50)
Net cash provided by (used in) investing activities	<u>(2,480)</u>	<u>3,802</u>
Cash flows from financing activities:		
Principal payments on note payable obligations	(63)	(17)
Principal payments on capital lease obligations	(306)	(228)
Preferred stock repurchased	-	(80)
Purchase of treasury stock	-	(847)
Net cash used in financing activities	<u>(369)</u>	<u>(1,172)</u>
Net increase (decrease) in cash and cash equivalents	(10,856)	200
Cash and cash equivalents at beginning of period	14,502	14,302
Cash and cash equivalents at end of period	<u>\$ 3,646</u>	<u>\$ 14,502</u>
Supplemental cash disclosures:		
Cash paid for interest	<u>\$ 94</u>	<u>\$ 150</u>
Noncash financing activities:		
Equipment acquired through capital lease obligations	<u>\$ -</u>	<u>\$ 844</u>

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 2015 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 \$94 thousand and \$150 thousand for the years ended December 31, 2015 and 2014, respectively. No income taxes were paid for the years ended December 31, 2015 and 2014.

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 \$119 thousand and \$125 thousand in trade receivables related to accrued revenues from oil and gas production at December 31, 2015 and 2014, respectively. We had other accounts receivable of \$4 thousand and \$13 thousand at December 31, 2015 and 2014, respectively.

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, 2015 and 2014.

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 Income as of December 31, 2014	Current Period Unrealized Loss	Accumulated Other Comprehensive Loss as of December 31, 2015
Investment in Global	\$ -	\$ (5,056)	\$ (5,056)
Foreign Currency Translation Adjustments	-	(386)	(386)
	<u>\$ -</u>	<u>\$ (5,442)</u>	<u>\$ (5,442)</u>

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.

Construction in Progress within property and equipment on our consolidated balance sheets at December 31, 2014 was related to the BWI Arctic Star plant under development. During January 2015, the Arctic Star plant was fully commissioned and subject to depreciation. We recorded depreciation expense of \$593 thousand and \$108 thousand related to the Arctic Star plant for years ended December 31, 2015 and 2014, respectively. Of this depreciation expense, \$98 thousand and \$87 thousand was related to assets under capital lease for years ended December 31, 2015 and 2014, respectively. 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 have two year minimum lease terms. These leases include options to renew and/or purchase the leased property. At December 31, 2014, total assets acquired under capital leases were \$844 thousand.

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 continue to be held under the remaining 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. At 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 balance sheets. Capital lease interest expense was \$87 thousand and \$165 thousand for the years ended December 31, 2015 and 2014, respectively. The following is a schedule of remaining future minimum lease payments under capital leases (in thousands):

<u>Year Ending December 31,</u>	
2016	\$ 54
Less: Amount representing interest (1)	<u>(2)</u>
Present value of minimum lease payments	<u>\$ 52</u>

⁽¹⁾ Amount to reduce minimum lease payments to fair value as calculated by the imputed interest rate at lease inception since the present value of the minimum lease payments as calculated by the incremental borrowing rate exceeded fair value at inception of the leases.

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 and \$1.4 million on proved properties and \$77 thousand and \$314 thousand on unproved properties as a component of operating expenses within the HKN operating segment of our consolidated statements of operations for the years ended December 31, 2015 and 2014, respectively.

After the 2015 impairment, the new gross cost basis of the oil and gas properties is \$2 million and consists only of proved properties. Depreciation, depletion and amortization expense for oil and gas producing properties and related equipment was \$335 thousand and \$411 thousand for the years ended December 31, 2015 and 2014, 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 \$72 thousand and \$83 thousand for the years ended December 31, 2015 and 2014, respectively.

Intangible Assets – Our intangible assets consist of patents acquired in connection with our investment in BriteWater International, Inc. (“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 \$1.3 million has been recorded on these patents to date. We have recorded amortization expense related to these patents of \$191 thousand and \$205 thousand for the years ended December 31, 2015 and 2014, 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
2016	\$ 183
2017	170
2018	75
2019	75
2020	75
Thereafter	693
Total	<u>\$ 1,271</u>

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 year ended December 31, 2015. We recognized an other-than-temporary impairment of \$937 thousand in our consolidated statements of operations at December 31, 2014. See Note 4 – “Investment in Global” for more information.

Other Assets – At December 31, 2015, other assets included \$69 thousand in prepaid drilling costs related to the drilling and completion of wells held by HKN Bakken, Inc. (“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 \$1 million and \$18.1 million were recognized on long-lived assets used in our operations during the years ended December 31, 2015 and 2014, respectively. The 2015 impairment losses were related to oil and gas properties held by HBI. The 2014 impairment losses consisted of \$10.3 million for the Arctic Star plant, \$6.1 million for the BWI weathered lagoon plant and \$1.7 million for oil and gas properties held by HBI. Please see Note 6 – “Fair Value Measurements” for more information on these impairments and related assumptions.

Notes Payable – We had notes payable of \$63 thousand at December 31, 2014 as a result of the purchase of a generator and insurance premiums for the Arctic Star plant, both of which were financed. The note payable for the generator had a two year term at zero percent interest. The note payable related to the insurance premiums had a ten month term and bore interest at approximately 2.4% of the initial note amount. Both notes were repaid in full during the first quarter 2015. Interest expense on the insurance premiums note was negligible for the year ended December 31, 2015.

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 \$2 thousand at December 31, 2015 and December 31, 2014. Changes to the liability during the year ended December 31, 2015 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.

Recent 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 November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes - Balance Sheet Classification of Deferred Taxes (Topic 740)*. This standard requires deferred tax assets and liabilities to be classified as noncurrent in the consolidated balance sheet. This standard is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. ASU No. 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. 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 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 Accounting Standards Update 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. 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 April 2015, FASB issued the ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Entities can elect to adopt the amendments either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. We have evaluated our current cloud computing arrangements and determined that this standard does not have any impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This standard requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This standard is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We are currently evaluating the impact of this update on future disclosures concerning our liquidity position.

(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 was idled during 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.

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.

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 oil pricing at December 31, 2015 and 2014, we evaluated our BWI assets for recoverability.

Using a probability weighted average income approach of different courses of actions available, we evaluated whether the Arctic Star plant would be able to recover its investment at projected pricing. As a result of this evaluation, we recognized an impairment loss of \$10.3 million as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2014. No impairment was recognized on the Arctic Star plant during 2015. Please see Note 6 – "Fair Value Measurements" for more information on the method used to determine the fair value of this asset.

In December 2014, as a result of oil pricing and the age of the BWI weathered lagoon plant, we wrote down the book value of this plant to its estimated salvage value, resulting in an impairment loss of \$6.1 million as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2014. No impairment was recognized on the weathered lagoon plant during 2015. Please see Note 6 – "Fair Value Measurements" for more information on the method used to determine the fair value of this asset.

(3) HKN BAKKEN, INC.

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. During the year ended December 31, 2015, we had capital expenditures of \$146 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 and \$1.4 million on proved properties and \$77 thousand and \$314 thousand on unproved properties as a component of operating expenses within the HKN operating segment of our consolidated statements of operations for the years ended December 31, 2015 and 2014, respectively. Please see Note 6 – "Fair Value Measurements" for more information on the method used to determine the fair value of these assets.

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 statements of operations.

In April 2014, we executed and closed on an agreement for the final dissolution of our joint venture in Gerrity Oil, LLC. In conjunction with this agreement, HBI sold its interest in four Bakken wells and a six acre parcel of land in Colorado for proceeds of approximately \$271 thousand and recognized a gain on this sale of \$47 thousand within interest and other income in our consolidated statements of operations.

(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, 2015. We did not purchase any additional shares of Global during 2015.

At December 31, 2015 and 2014, 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):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Shares of Global Stock Held by HKN	12,805	12,805
Closing Price of Global Stock	£ 0.24	£ 0.50
Foreign Currency Exchange Rate	1.4763	1.5586
Market Value of Investment in Global	\$ 4,537	\$ 9,979

The foreign currency translation adjustment of approximately \$386 thousand and the unrealized loss on investment of \$5 million 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, 2015.

As of December 31, 2015, we had a cumulative unrealized loss position on our investment in Global of \$5.4 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, despite the decline in their quoted market share price. In addition with consideration of our intent and ability to hold the investment, we determined the impairment to be temporary as of December 31, 2015. 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, 2015 (in thousands):

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

No unrealized loss position existed at December 31, 2014 due the recognition of an impairment loss of \$937 thousand within the HKN operating segment of our consolidated statements of operations in December 2014.

(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, 2015. We loaned \$2 million of the total loan amount, and Global loaned the remaining \$8 million. The principal amount of the loan is payable in full on March 15, 2016, and 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 December 31, 2015, we own approximately 35% of Global’s outstanding ordinary shares.

During the year ended December 31, 2015, we received interest payments from Everest Hill of approximately \$60 thousand and recognized deferred origination fees of \$23 thousand.

(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, 2015 and 2014 (in thousands):

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

	December 31, 2014		
	Level 1	Level 2	Level 3
Investment in Global (1)	\$ 9,979	\$ -	\$ -

(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, 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 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.

At December 31, 2015, management assessed the recoverability of the carrying value of the Arctic Star plant based on the plant's highest and best possible use as of the reporting date. These different courses of action included estimates and timing of oil price recovery, anticipated feedstock at the time of plant start up and operating partnerships with investment opportunities. These estimates included a delayed start date of the plant, lower commodity pricing and feedstock volumes, and reduced operating hours of the plant compared to the prior year assessment. However, the potential for improved commercial operating terms resulting from partnership opportunities resulted in probability-weighted estimated future undiscounted cash flows in excess of the carrying value. Therefore, no impairment loss was recognized on the Arctic Star plant 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, 2014 (in thousands).

	December 31, 2014	
	Fair Value	Impairment
Arctic Star plant	\$ 6,239	\$ 10,290
Weathered lagoon plant	\$ 79	\$ 6,151
Oil and gas property -proved	\$ 1,633	\$ 1,375
Oil and gas property -unproved	\$ 77	\$ 314

The fair value of the Arctic Star plant was determined using a probability weighted average income approach of different courses of actions available as estimated by management using significant unobservable inputs. The actual results may vary significantly from these estimates over the lives of these assets. If actual results are not consistent with our estimates and assumptions used to calculate estimated future cash flows, we may be exposed to impairment losses that could be material. Accordingly, the fair value measurements of these assets have been classified as Level 3.

For the year ended December 31, 2014 these inputs included estimated commodity pricing using futures price strips, anticipated feedstock available and timing of the plant start up and consistent operations under its current condition as of the reporting date. As a result of this fair value determination, we recognized an impairment loss of \$10.3 million as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2014.

In December 2014, the fair value of the weathered lagoon plant was determined using an estimated salvage value determined by management using significant unobservable inputs such as vendor quotes for comparable used products and parts. 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 \$6.1 million as a component of operating expenses within the BWI operating segment of our consolidated statements of operations for the year ended December 31, 2014. The weathered lagoon plant was sold in December 2015 and no impairment losses were recognized during 2015.

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 using futures price strips 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 \$1.4 million on proved properties and \$314 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, 2014.

(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, 2015. Assets of discontinued operations at December 31, 2014 were \$158 thousand, which was comprised of a fully reserved accounts receivable related to the 2011 sale of our Gulf Coast oil and gas properties.

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

	December 31, 2015	December 31, 2014
Current Liabilities:		
Trade payables	\$ -	\$ 3
Revenues and royalties payable	23	18
Accrued commitments and contingencies	-	3,165
Accrued liabilities and other	3	51
Total Current Liabilities	<u>26</u>	<u>3,237</u>
Total Liabilities of Discontinued Operations	<u>\$ 26</u>	<u>\$ 3,237</u>

Accrued Liabilities and Other at December 31, 2015 consist of legal fees related to the Louisiana Limited Scope Audit. All Accrued Commitments and Contingencies at December 31, 2014 were settled and paid during 2015. See Note 14 – “Commitments and Contingencies” for additional information.

Cash used by discontinued operations during the year ended December 31, 2015 is mainly related to settlement payments of \$3.1 million and \$65 thousand related to the Main Pass Environmental Investigations, payment of \$125 thousand for the settlement reached with TPIC, and associated legal costs net of any related insurance recoveries. See Note 14 – “Commitments and Contingencies” for additional

information. Upon resolution of the XPLOR Energy litigation and regulatory 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, 2015 and 2014. We had losses from discontinued operations of \$241 thousand and \$3.4 million for the years ended December 31, 2015 and 2014, 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.

We had disposal-related gains of \$41 thousand for the year ended December 31, 2014 due to a refund of a drilling prepayment related to retained plugging and abandonment costs. No similar gains or losses were recognized during 2015.

(8) INCOME TAXES

We did not recognize any current or deferred tax benefit during the years ended December 31, 2015 or 2014. The following is a reconciliation of the reported amount of income tax benefit for the years ended December 31, 2015 and 2014 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.	
	2015	2014
	(in thousands)	
Statutory tax benefit	\$ (2,208)	\$ (7,019)
Increase in valuation allowance		
Change in valuation allowance	2,205	5,940
Effect of permanent differences and other	3	1,079
Total tax benefit	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2015, we had available for U.S. federal income tax reporting purposes, a net operating loss (NOL) carryforward for regular tax purposes of approximately \$111 million which expires in varying amounts during the tax years 2018 through 2035, an alternative minimum tax NOL carryforward of approximately \$97 million which expires in varying amounts during the tax years 2018 through 2035, 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, 2015, 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, 2015 and 2014:

	2015	2014
	(in thousands)	
Deferred tax assets:		
Net operating losses (NOL) carryover	\$ 37,767	\$ 34,657
Depletion carryover	3,020	3,020
Share based compensation	100	120
Deferred book liabilities	1	1
Debt and lease obligations	18	205
Loan origination fees	6	-
Book vs. tax basis in investments	25,850	24,000
Capital loss carryover	-	763
Property and equipment	4,402	5,024
Total gross deferred tax assets	<u>71,164</u>	<u>67,790</u>
Deferred tax liabilities:		
Property and equipment	-	-
Net deferred tax assets	<u>71,164</u>	<u>67,790</u>
Less valuation allowances	<u>(71,164)</u>	<u>(67,790)</u>
Deferred tax liabilities, net of valuation allowance	<u>\$ -</u>	<u>\$ -</u>

Our policy is to recognize potential interest and penalties accrued related to unrecognized tax benefits within income tax expense. The tax years 2012-2015 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject. The tax years 2011-2015 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, 2015 and 2014, we had 390,916 shares issued and outstanding.

Treasury Stock - At December 31, 2015 and 2014, 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 year ended December 31, 2015, we did not purchase or retire any shares of our common stock. As of December 31, 2015, 582 shares remained available for repurchase under our repurchase program.

Changes in our common, preferred and treasury shares during 2015 and 2014 are as follows:

Description	Number of Shares			
	Preferred G1	Preferred G2	Common	Treasury
Balance as of December 31, 2013	1	1	401,943	-
Shares issued for preferred stock dividends	-	-	2	-
Treasury stock repurchase	-	-	-	11,029
Treasury stock retirements	-	-	(11,029)	(11,029)
Preferred stock repurchased	(1)	(1)	-	-
Balance as of December 31, 2014	-	-	390,916	-
Treasury stock repurchase	-	-	-	-
Treasury stock retirements	-	-	-	-
Balance as of December 31, 2015	-	-	390,916	-

(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.

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. As of December 31, 2015, 22 thousand of these options were forfeited and approximately 18 thousand options were exercisable. 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. As of December 31, 2015, 12.5 thousand of these options were forfeited and approximately 8 thousand options were exercisable. 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 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 year ended December 31, 2015, as no further forfeitures were expected. However, in the first and third quarters of 2015, a total of 20.5 thousand shares were forfeited and stock compensation expense of \$153 thousand was reversed for those shares.

The following table summarizes stock option activity during the year ended December 31, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	50,500	\$ 22.80		
Granted	-	-		
Exercised	-	-		
Forfeited or Expired	(20,500)	24.93		
Outstanding at December 31, 2015	<u>30,000</u>	<u>\$ 21.34</u>	<u>6.93</u>	<u>\$ -</u>
Exercisable at December 31, 2015	<u>26,000</u>	<u>\$ 19.76</u>	<u>6.78</u>	<u>\$ -</u>

The following table summarizes nonvested option activity during the year ended December 31, 2015:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at January 1, 2015	25,000	\$ 14.00
Granted	-	-
Vested	(10,000)	11.89
Forfeited	(11,000)	14.87
Nonvested at December 31, 2015	<u>4,000</u>	<u>\$ 16.89</u>

At December 31, 2015, there was approximately \$62 thousand of total unrecognized stock compensation expense. This compensation expense is expected to be recognized over the weighted-average vesting term remaining of .93 years.

Total stock-based compensation recognized within selling, general and administrative expenses in the Company's consolidated statements of operations was a benefit of \$59 thousand for the year ended December 31, 2015, as a result of forfeitures during the first and third quarters of 2015, and an expense of \$212 thousand for the year ended December 31, 2014.

(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 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. For the year ended December 31, 2015, we recorded gross service fees of \$722 thousand as a reduction to general, selling and administrative expenses, of which \$230 thousand were recorded within accounts receivable- related party on our consolidated balance sheets.

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. 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 \$10 million 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 balance sheets. See Note 5 – "Notes Receivable – Related Party" for additional information.

(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 leased in Texas, 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, 2015 and 2014 is as follows:

	<u>Year Ended December 31, 2015</u>			
	<u>HKN</u>	<u>BWI</u>	<u>Eliminations</u>	<u>Consolidated</u>
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 losses	(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

	<u>Year Months Ended December 31, 2014</u>			
	<u>HKN</u>	<u>BWI</u>	<u>Eliminations</u>	<u>Consolidated</u>
Oil and gas revenues	\$ 988	\$ -	\$ -	\$ 988
Oil and gas operating expenses	(218)	-	-	(218)
Selling, general and administrative expenses	(2,894)	(968)	-	(3,862)
Depreciation, depletion and amortization	(470)	(337)	-	(807)
Impairment losses	(1,688)	(16,441)	-	(18,129)
Gain on BWI contingency	-	800	-	800
Interest and other expenses	-	(437)	271	(166)
Interest and other income - related parties	1,879	-	(271)	1,608
Interest and other income	50	-	-	50
Gain on sale of assets	30	-	-	30
Impairment loss on investment in Global	(937)	-	-	(937)
Segment loss from continuing operations	\$ (3,260)	\$ (17,383)	\$ -	\$ (20,643)
Capital Expenditures	\$ 386	\$ 7,611	\$ -	\$ 7,997
Total Assets	\$ 37,582	\$ 8,088	\$ (10,690)	\$ 34,980

(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, 2015 and 2014 (in thousands, except per share data):

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Net Loss Attributed to Common Stock	Weighted- Average Shares	Per Share Loss	Net Loss Attributed to Common Stock	Weighted- Average Shares	Per Share Income (Loss)
<i>Basic EPS:</i>						
Loss from continuing operations	\$ (6,493)		\$ (16.61)	\$ (20,721) (1)		\$ (52.66)
Loss from discontinued operations	(241)		(0.62)	(3,316)		(8.43)
Net loss attributed to common stock	\$ (6,734)	391	\$ (17.23)	\$ (24,037)	393	\$ (61.09)
<i>Effect of dilutive securities</i>						
Preferred stock	-	-	-	- (2)	-	-
Diluted loss per share	\$ (6,734)	391	\$ (17.23)	\$ (24,037)	393	\$ (61.09)

- (1) Includes accrual of dividends, net of the payment of preferred stock dividends and repurchase of preferred stock, related to preferred stock for the years ended December 31, 2014.
- (2) 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 year ended December 31, 2014.

(14) COMMITMENTS AND CONTINGENCIES

Leases - We lease our corporate office space. Office operating lease payments were \$215 thousand for each of the years ended December 31, 2015 and 2014. Total site lease payments for our Arctic Star plant were \$100 thousand and \$92 thousand for the years ended December 31, 2015 and 2014, respectively. 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 ends in February 2016. Capital lease payments were \$418 thousand and \$378 thousand for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, 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, 2015 are as follows (in thousands):

Year	Operating Leases (1)	Capital Leases (2)
2016	\$ 295	\$ 82
2017	139	-
2018	-	-
2019	-	-
Thereafter	-	-
Total	\$ 434	\$ 82

- (1) Consists of our corporate office lease and site lease for the Arctic Star plant.
- (2) Consists of an equipment lease related to the Arctic Star plant.

XPLOR Energy Litigation -On August 6, 2012, Texas Petroleum Investment Company (“TPIC”) filed a lawsuit against our subsidiary XPLOR Energy SPV-1, Inc. (“XPLOR SPV-1”) in the 236th Judicial District Court, Tarrant County, Texas. The case is styled: *Texas Petroleum Investment Company vs. XPLOR Energy SPV-1, Inc., Richard Cottle, Sarah Gasch, and John Hewitt*. In the lawsuit, TPIC asserted claims of fraud, fraudulent inducement, negligent misrepresentation, and indemnity related to its purchase of a production platform and associated assets from XPLOR SPV-1. The closing of the transaction occurred on November 17, 2011 but was effective as of October 1, 2011. In December 2015, we reached a settlement agreement with TPIC for \$500 thousand, of which we paid \$125 thousand and our insurance carrier paid \$375 thousand.

Main Pass Environmental Investigations – In January 2013, we received a “Consolidated Compliance Order & Notice of Potential Penalty (“CCONPP”) issued by the Louisiana Department of Environmental Quality (“LDEQ”) to our subsidiary, XPLOR Energy Operating Company (“XPLOR Operating”), the former operator of the Main Pass 35 oil and gas production facility. The CCONPP is related to the TPIC allegations of improper salt water disposal at that facility. The Main Pass 35 facility was previously owned by our subsidiary XPLOR SPV-1. XPLOR Operating requested a hearing with respect to the CCONPP and the matter is pending in the Louisiana Division of Administrative Law in the matter styled: *In the Matter of XPLOR Energy Operating Company*, Louisiana Division of Administrative Law Docket No. 2014-2388-EQ, Louisiana Department of Environmental Quality (“LDEQ”) Tracking No. WE-CN-12-01101. Public notice of a proposed settlement which would resolve LDEQ’s claims in this matter against XPLOR Operating and XPLOR SPV-1 in return for a payment of \$65 thousand was published on June 2, 2015 and the public comment period has expired. LDEQ requested and received approval of the proposed settlement by the Louisiana Attorney General and payment was made in September 2015.

As previously disclosed, in March 2013, we were advised that the U.S. Environmental Protection Agency (“EPA”) was undertaking a criminal investigation of the salt water disposal incident and on September 15, 2014, the U.S. Attorney’s Office filed a bill of information with the U.S. District Court for the Eastern District of Louisiana alleging that XPLOR SPV-1 knowingly violated the Federal Water Pollution Control Act at its Main Pass operations. On March 4, 2015, the U.S. District Court for the Eastern District of Louisiana accepted XPLOR SPV-1’s plea agreement entered into in 2014 with the U.S. Attorney’s office in New Orleans, Louisiana. During the year ended December 31, 2015, XPLOR SPV-1 paid an aggregate of \$3.1 million in penalties pursuant to the plea agreement.

Point Au Fer Lawsuit – During the second quarter 2013, we learned HKN, Inc. was named in a lawsuit filed in the 32nd Judicial District Court for the Parish of Terrebonne, Louisiana on March 26, 2013, by Point Au Fer, L.L.C., and The Roman Catholic Church of the Archdiocese of New Orleans. The case is styled: *Point Au Fer, L.L.C., and The Roman Catholic Church of the Archdiocese of New Orleans v. ExxonMobil Oil Corporation, et al*, No. 169160. In the lawsuit, the plaintiffs have alleged that real property they own in Terrebonne Parish has been environmentally damaged as a result of oil and gas exploration activities of twenty different defendants. The plaintiffs seek damages for testing and remediation of the property, property stigma, loss of use of land and lost profits, civil fruits for defendants trespass, land loss and subsidence, punitive or exemplary damages and attorney’s fees. No actual dollar amount of damages has been alleged in the petition. Out of over 100 wells identified in the petition, HKN, Inc. only drilled one well, the MA Smythe Nelson #1, which was a dry hole. Based on these facts, the parties agreed to dismiss all claims against HKN, Inc. without prejudice. The order of dismissal was executed by the court on June 26, 2015. Accordingly, at December 31, 2015, we did not record a contingency related to this matter.

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, 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. The appeal is now pending before the United States Fifth Circuit Court of Appeals, with oral argument set for February 29, 2016. Accordingly, at December 31, 2015, 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 \$169 thousand, resulting in a total assessment of \$363 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, 2015, 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 \$363 thousand.

(15) OIL AND GAS DISCLOSURES (unaudited)

Our results of operations from oil and natural gas producing activities is as follows (in thousands):

	Years Ended December 31,	
	2015	2014
Revenues:		
Oil	\$ 489	\$ 862
Natural Gas	53	126
Total oil and gas revenues	<u>542</u>	<u>988</u>
Less:		
Oil and gas operating costs	160	218
Depreciation, amortization and accretion	335	411
Property impairments	1,005	1,688
Total oil and gas expenses	<u>1,500</u>	<u>2,317</u>
Results of operations from oil and gas producing activities	<u>\$ (958)</u>	<u>\$ (1,329)</u>

All of oil and gas revenues are attributable to our oil and gas interests, all of which are located in the United States. We rely on our operating partners to market and sell our production. As of December 31, 2015, our operating partners are comprised of 11 different exploration and development companies, which range from large publicly-traded companies to small, privately owned companies. During 2015, we derived 70% of our revenues from 4 of these operators. We do not believe that the loss of any single operator would have a material adverse effect on our company as a whole.

Costs incurred in property acquisition, exploration and development activities (in thousands):

	Years Ended December 31,	
	2015	2014
Domestic costs incurred:		
Acquisition of properties		
Proved	\$ -	\$ -
Unproved	-	-
Exploration	-	-
Development	253	276
Total domestic costs incurred	<u>\$ 253</u>	<u>\$ 276</u>

Capitalized Costs Relating to Oil and Gas Producing Activities (in thousands):

	Years Ended December 31,	
	2015	2014
Capitalized costs:		
Proved properties	\$ 4,324	\$ 4,071
Unproved properties	391	391
Total capitalized costs	<u>4,715</u>	<u>4,462</u>
Less accumulated depreciation and amortization	(1,399)	(1,064)
Less impairment provision	(2,693)	(1,688)
Net capitalized costs	<u>\$ 623</u>	<u>\$ 1,710</u>

Included in the capitalized costs of proved properties of \$4.3 million are approximately \$3.6 million in costs related to producing wells and related equipment and approximately \$674 thousand in costs related to mineral interests in properties.

Reserves Information – The process of estimating oil and gas reserves is complex and requires significant judgments. As a result, our reserves report has been prepared by qualified third-party engineers, as defined by the Society of Petroleum Engineers’ standards. We also require that the independent third-party reservoir engineers ensure that the proved reserves estimates are determined in accordance with SEC definitions and guidance.

Our estimates of reserves and related future net revenues at December 31, 2015 and 2014 were based on reports prepared by Moyes and Co., our independent reserve engineers, in compliance with the SEC rules, regulations, definitions and guidance and in accordance with Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers.

Proved oil and gas reserves are defined as the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir. Reserves which can be economically produced through application of improved recovery techniques are included in the “proved” classification when either successful testing by a pilot project or the operation of an installed program in the reservoir provides support for the engineering analysis on which the project or program was based.

An analysis and interpretation of production history was utilized to make the estimate of recoverable reserves from the captioned leases. In accordance with applicable requirements of the SEC, estimates of our net proved reserves and future net revenues are made using average prices at the beginning of each month in the 12-month period prior to the date of such reserve estimates and are held constant throughout the life of the properties.

The reliability of reserves information is considerably affected by several factors. Reserves information is imprecise due to the inherent uncertainties in, and the limited nature of, the data upon which the estimating of reserves information is predicated. Moreover, the methods and data used in estimating reserves information are often necessarily indirect or analogical in character rather than direct or deductive. Furthermore, estimating reserves information by applying generally accepted petroleum engineering and evaluation principles involves numerous judgments based upon the engineer's educational background, professional training and professional experience. The extent and significance of the judgments to be made are, in themselves, sufficient to render reserve information inherently imprecise.

The following table sets forth our estimated proved reserves based on the SEC rules defined in Rule 4.10(a) of Regulation S-X. Immaterial interests were not included in our reserve estimates.

	Oil (Barrels)	Gas (Mcf)
	(in thousands)	
Proved reserves as of December 31, 2014:		
Proved developed reserves	46	72
Proved undeveloped reserves	71	134
Total Proved Reserves as of December 31, 2014	117	206
Proved reserves as of December 31, 2015:		
Proved developed reserves	37	66
Proved undeveloped reserves	-	-
Total Proved Reserves as of December 31, 2015	37	66

All reserves were held within the United States for the years ended December 31, 2015 and 2014.

We incurred approximately \$146 thousand of capital expenditures for drilling activities during 2015, which resulted in 9 additional gross producing wells during the year. However, the decrease in our proved developed reserves was mainly a result of reflecting uneconomic results for certain wells in the Bakken play and decreased investment anticipated in new wells. Proved undeveloped reserves decreased by approximately 6 thousand bbls and 18 thousand mcfs as a result of becoming proved developed reserves in the current year. The remaining decrease was a result of reflecting uneconomic results for certain wells in the Bakken play, which resulted in no remaining proved undeveloped reserves at December 31, 2015. Of our proved oil and gas reserves 82% are concentrated in the Bakken formation in North Dakota.

Oil and Gas Reserve Data - The following information is presented with regard to our proved oil and gas reserves. The reserve values and cash flow amounts reflected in the following reserve disclosures are based on a simple average of the first day of the month price for the period of January 1, 2015 to December 1, 2015, in accordance with ASC 932, *Oil and Gas Reserve Estimation and Disclosure* and the Securities and Exchange Commission's Final Rule, *Modernization of the Oil and Gas Reporting Requirements*.

The following table presents our independent petroleum consultants' estimates of our proved crude oil and natural gas reserves.

	Oil (Barrels)	Gas (Mcf)
	(in thousands)	
Proved reserves as of December 31, 2014:		
Proved developed reserves	46	72
Proved undeveloped reserves	71	134
Total Proved Reserves as of December 31, 2014	<u>117</u>	<u>206</u>
Proved reserves as of December 31, 2015:		
Proved developed reserves	37	66
Proved undeveloped reserves	-	-
Total Proved Reserves as of December 31, 2015	<u>37</u>	<u>66</u>

(1) All reserves were held within the United States for the years ended December 31, 2015 and 2014.

“Standardized measure” relates to the estimated discounted future net cash flows, as adjusted for our asset retirement obligations, and major components of that calculation relating to proved reserves at the end of the year in the aggregate and by geographic area, based on average prices, costs, and statutory tax rates and using a 10% annual discount rate. Prices at December 31, 2015 were based on a simple average of the first day of the month price for the period of January 1, 2015 to December 1, 2015 of \$50.28 per barrel and \$2.59 per mmbtu, as adjusted by basin for quality, transportation and regional price differentials.

	(Unaudited)	
	Total ⁽¹⁾	
	Oil (Mbbbls)	Gas (Mmcf)
Proved reserves:		
As of December 31, 2013	<u>197</u>	<u>260</u>
Extensions and discoveries	9	14
Revisions	(65)	(20)
Production	(11)	(18)
Sales of reserves in place	(13)	(30)
As of December 31, 2014	<u>117</u>	<u>206</u>
Extensions and discoveries	1	5
Revisions	(69)	(125)
Production	(12)	(20)
As of December 31, 2015	<u>37</u>	<u>66</u>
Proved developed reserves at:		
December 31, 2015	37	66
Proved undeveloped reserves at:		
December 31, 2015	-	-

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves:

	Years Ended December 31,	
	2015	2014
	(Unaudited, in thousands)	
Future cash inflows	\$ 1,698	\$ 11,341
Future production costs	(629)	(2,874)
Future development costs	-	(1,902)
Future income tax expense	-	-
Future net cash flows	1,069	6,565
10% annual discount for estimated timing of cash flows	(288)	(2,869)
Standardized measure of discounted future net cash flows related to proved reserves (1)	<u>\$ 781</u>	<u>\$ 3,696</u>

- (1) Cash flows associated with asset retirement obligations are included in the Standardized Measure of Discounted Future Net Cash Flows.

	Years Ended December 31,	
	2015	2014
	(Unaudited, in thousands)	
Standardized measure - beginning of year	\$ 3,696	\$ 4,250
Sales of oil and gas, net	(382)	(770)
Net change in prices and production costs	(1,159)	(435)
Net change in future development costs	-	2,509
Extensions and discoveries	28	353
Revisions of previous quantity estimates	(1,729)	(2,155)
Previously estimated development costs incurred	-	269
Accretion of discount	370	425
Sale of reserves	-	(561)
Other	(43)	(189)
Standardized measure - end of year	<u>\$ 781</u>	<u>\$ 3,696</u>