

Audit Committee of the Board of Directors  
CHARTER

The Board of Directors (“Board”) of HKN (the “Company”) has unanimously adopted by resolution on the date stated above the following charter ("Charter") pursuant to which the Audit Committee of the Board (the “Committee”) will be governed, operate and carry forth its duties:

**1. Responsibilities.**

- a) The Committee shall be responsible for overseeing the Company’s accounting and financial reporting each year to applicable regulatory authorities and endeavoring to ensure that the Company meets its filing and reporting obligations in relation therewith.
- b) The Committee, in its capacity as a committee of the Board, will be directly responsible for appointing, compensating, retaining and overseeing the work of the independent auditors (“Auditors”) (including resolution of disagreements between management and the Auditors regarding financial reporting) for the Company for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attestation services for the Company. The Auditors will report directly to the Committee.
- c) The Committee will report to the Board at regular Board meetings concerning the status of the Company’s financial statements and any comments made by the Auditors. The Committee may also report to the Board at such other times as it deems appropriate. The Committee shall further be responsible for bringing any matters of concern or question of which it may obtain knowledge to the attention of the Board.
- d) The Committee is responsible for ensuring that the Auditors submit a formal written statement regarding any relationships and services that may affect the Auditors’ objectivity and independence relating to the Company. In the event any such issues arise, the Committee should discuss any relevant matters with the Auditors and determine if any action is necessary to address the independence of the Auditors.

- e) The Committee shall sign and file a report annually with the Board to be included in the Company's Proxy Statement to comply with the Proxy Statement disclosure requirements as set forth by the Securities and Exchange Commission as of this date or as may hereafter be amended.
- f) The Committee shall review this Charter at least annually for adequacy and compliance with all appropriate laws, rules and regulations and shall recommend changes to the Board whenever changes are appropriate or necessary.
- g) The Committee shall review, approve, and consider the effect upon the Auditors' independence of, the Auditors' provision to the Company of all non-audit services allowed to be performed by the Auditors under applicable law, and the Committee shall review and approve all non-audit fees associated therewith.
- h) The Committee is responsible for ensuring that the Auditors timely report to the Committee (i) all critical accounting policies and practices used or to be used, (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Auditors, and (iii) other material written communications between the Auditors and management, such as any management letter or schedule of unadjusted differences.
- i) The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- j) The Committee shall make or cause to be made, from time to time, such other examinations or reviews as the Committee may deem advisable with respect to the adequacy of the systems of internal controls and accounting practices of the Company and its subsidiaries and with respect to current accounting trends and

developments, and the Committee shall take such action with respect thereto as may be deemed appropriate.

k) The Committee shall review with management and the Auditors the annual and quarterly financial statements of the Company and any material changes in accounting principles or practices used in preparing the statements prior to the filing of a report on Form 10-K or 10-Q with the Securities and Exchange Commission. Such review will include the items required by SAS 61 (or any successor standard) as in effect at that time in the case of the annual statements and SAS 71 (or any successor standard) as in effect at that time in the case of the quarterly statements.

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The Committee shall review the status of compliance with laws, regulations, and internal procedures, contingent liabilities and risks that may be material to the Company, the scope and status of systems designed to assure Company compliance with laws, regulations and internal procedures, through receiving reports from management, legal counsel and other third parties as determined by the Committee on such matters, as well as major legislative and regulatory developments which could materially impact the Company's contingent liabilities and risks.

m) Unless the Board shall delegate such responsibility to another committee of the Board composed exclusively of independent directors, the Committee shall approve all related party transactions entered into by the Company.

## **2. Committee Membership Structure, Organization and Requirements.**

a) Except as may be permitted under applicable law and listing standards imposed by The American Stock Exchange, Inc. ("AMEX"), the Committee shall consist of only independent members of the Board who will annually be appointed to the Committee by the Board at its Annual Meeting each year following the Annual Stockholders Meeting. For purposes of this Charter, Board members' independence shall be determined in accordance with applicable laws, regulations and rules, including listing standards of AMEX.

- b) The Committee shall appoint a Chairman who shall chair meetings of the Committee and who may call meetings of the Committee as necessary and appropriate.
- c) The Committee shall never consist of less than 3 members.
- d) If any member of the Committee shall, during his or her tenure, have any action occur, engage in any action or transaction or enter into any relationship, in each case which impacts his or her independence, such member shall so inform the Committee at the earliest practicable date. If such member shall be determined to no longer be independent, then such member shall resign from the Committee upon the Committee recommending to the Board and the Board having appointed another independent member of the Board to replace such member.
- e) The Committee membership and composition will be structured to fully comply with the educational, experience and understanding requirements as approved by AMEX, including without limitation with respect to financial literacy and/or sophistication of Committee members and the Committee chair.
- f) If the Board shall determine it to be practicable and desirable, the Committee membership shall include at least one person who, in the business judgment of the Board, shall be an “audit committee financial expert” (as such term is defined pursuant to the rules and regulations of the Securities and Exchange Commission).

### **3. Meetings.**

- a) The Committee will meet at least quarterly with the Auditors as well as the Company’s Chief Financial Officer (“CFO”) and Chief Executive Officer (“CEO”) and other members of management to receive a report and to review any issues relating to the Company’s financial statements.

- b) The Committee may meet at any time either in person or by telephone conference call.
- c) Meetings of the Committee may be called by the Chairman of the Committee, by the Company's CFO or CEO upon giving each member of the Committee at least 24 hours' notice, unless notice is waived by the Committee members.
- d) A majority of the Committee being present will constitute a quorum for any meeting of the Committee.
- e) The Committee may at its discretion meet independently of any member of management including holding meetings with the Auditors at any time.

#### **4. Committee Authority and Processes.**

- a) The Committee may seek the advice, interpretation and opinion of the Auditors, the Company's CFO or Corporate Secretary regarding any laws, rules, regulations, requirements or other matters affecting the Company, its financial statements and its proper disclosures or any other matters relating to the Committee's duties and responsibilities.
- b) The Committee may, independently and at its sole discretion, retain independent counsel, experts and other advisers as it deems necessary to carry out its duties and responsibilities.
- c) In the event the Committee shall reach a point of disagreement with the Company's CFO concerning any issue or point of disclosure to be made in the financial statements of the Company, then the Committee shall refer such issue to the Board for consideration.

- d) The Committee shall be authorized, in its judgment, to remove and replace the Company's Auditors, including without limitation when and if the Committee shall determine such Auditors cannot act objectively or independently as Auditors of the Company.
  
- e) The Committee will receive from the Company appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of compensation: (i) to any registered public accounting firm engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attestation services for the Company, (ii) to any advisers employed by the Committee as described under section 4(b) above, and (iii) for continuing education as needed related to their role on the audit committee.

The Charter is adopted by the Board effective as of the date first above written. It replaces and supersedes all prior charters governing the Committee.