Annual report and consolidated financial statements for the year ended 31 December 2015

Contents

1 Chairman's Statement
3 Chief Financial Officer's Statement
9 Board of Directors and Senior Management
10 Strategic Report
15 Directors' Report
18 Remuneration Report
20 Corporate Governance
23 Statement of Directors' Responsibilities
24 Independent Auditor's Report
26 Consolidated Income Statement
27 Consolidated Statement of Comprehensive Income and Expenditure
28 Consolidated Balance Sheet
29 Consolidated Statement of Changes in Equity
30 Consolidated Cash Flow Statement
31 Notes to the Consolidated Financial Statements
64 Parent Company Balance Sheet
65 Parent Company Statement of Changes in Equity
66 Notes to the Parent Company Financial Statements
75 Company information
76 Notice of Annual General Meeting

Chairman's Statement

for the year ended 31 December 2015 *(all amounts are shown in US$)*

As I write this letter to shareholders, WTI oil prices are near $48, the highest levels in almost a year. When prices first collapsed in late 2014, we expected prices to remain low for 6-12 months. Now, 18 months into the down cycle, it is clear that countries like Saudi Arabia, Iran and Russia have been making decisions based on factors other than just economics. However, the cuts in supply in the US and Canada, along with temporary disruptions in some countries, have now brought supply and demand more in balance and for the first time in months, there is more of a neutral, slightly bullish sentiment developing in the market.

Fortunately, we had begun the year with significant hedges in place, at prices that ranged from $49-$75 per barrel. These hedges helped mitigate the effect of the decline in oil prices during the year. Our hedging program contributed $7.8 million to revenue during 2015. In addition, our actual production was higher than originally projected due to cost effective workovers and production enhancement projects we pursued, which altered the decline behaviour of the producing wells. We also continued to focus on cost reductions throughout our organization. During the year, we have reduced our oil transportation from approximately $11 per barrel to less than $5 per barrel today. We also consolidated our financial functions in the US, substantially reducing our UK costs, we reduced head count in our Denver staff, we cut salaries for the entire Denver team and we made across the board cuts in spending resulting in an expected reduction of approximately $1.8 million in recurring annual administrative costs going into 2016.

As we entered 2015, we established a conservative capital budget, with drilling limited to our newly created Monarch Joint Development Area ("JDA") and workover and up-hole production enhancement projects. As prices remained low other than a short period in April and May, we deferred our drilling, raised $10 million from shareholders and reduced both our trade payable and commercial debt balances with a reduction of $4 million in early January 2016.

In our 2015 capital budget, Nighthawk had planned to drill six wells in areas that indicated structural fields. Unfortunately, the five wells we drilled in late 2015, four in the Monarch JDA and one in Arikaree Creek area, resulted in little success. We tested potential in other zones, primarily the Pennsylvanian, which included the Atoka zone. Based on the drilling and tests results, and taking into account the current oil price environment, only two of the wells were completed. In these two wells, we believe there exists untested, up-hole potential based upon hydrocarbon shows during drilling.

Although the drilling results were disappointing, the results in the Monarch JDA has not totally condemned this acreage. However, with oil prices projected to stay low through 2016, we have decreased our capital budget and do not plan any drilling beyond our existing two commitment wells.

On a positive note, the Nighthawk team recognized the potential of an enhanced oil recovery (water flood) project in our existing Arikaree Creek field. In October 2015, we submitted the application for the project and through the end of the year, worked with the Colorado Oil and Gas Conservation Commission's (COGCC) regulatory staff. In March 2016, we received conditional approval to proceed with the project. Preliminary estimates of the potential upside indicates that a 20%-25% additional recovery of the original oil in place could be achieved. In April 2016, we introduced a pilot program for the water flood project, covering the southern portion of the Arikaree Creek structure. For the pilot program, it is estimated that the recovery could result in an additional 1-2 million barrels of total oil being produced. We believe we have met all the requirements of the conditional approval from the COGCC, and we anticipate the pilot program to be operational in the fourth quarter of 2016.

The water flood project is the kind of project oil and gas companies want to implement in a recovering oil market. As we have disclosed previously, production is expected to substantially increase and to remain higher than otherwise possible for most of the life of the project. One of the key drivers of this project is that it requires minimal capital to implement which based upon current estimates is expected to be less than $3 million.

In a related matter, we have been negotiating with our banking partner on an extension of terms. They have been supportive of the water flood project and see the upside that it can provide. The Company believes that with obtaining the approval by 80% of the non-cost bearing owners, the likelihood of this project being ultimately approved in early June was substantially enhanced. We are working with the bank on new terms that will allow this project to move forward and we hope to have those new terms in place around the time the project is approved.

Chairman's Statement (continued)

for the year ended 31 December 2015 *(all amounts are shown in US$)*

I would like to thank the shareholders, the Board and the entire staff for their support through what has been a very tough year for Nighthawk. As I said above, for the first time in months, we see some reason for optimism in oil pricing. While, we do not expect prices to reach $70 in the next 18 months, we do believe they could trade more often in the $45-$60 range. When you consider our relatively low operating cost structure, our operating margins almost double at $60 WTI pricing as compared to the pricing we experienced in 2015.

As we continue to work through arrangements with the bank, implement the water flood pilot project and hopefully enjoy better pricing in the next year, our future results should improve substantially. We exit the year with a good bit of cautious optimism.

Rick McCullough
Executive Chairman

1 June 2016

Chief Financial Officer's Statement

for the year ended 31 December 2015 *(all amounts are shown in US$)*

The following information relates to the accounts of Nighthawk Energy plc and its wholly-owned subsidiaries, collectively the "Group" or the "Company".

Fiscal 2015 was a challenging year for the Group and the oil and gas industry as a whole. Oil prices declined significantly during the year which resulted in decreased revenues, increased impairments of assets and a net loss for the year ended 31 December 2015. Following is a summary of the key results for the year.

Financial Results

Loss for the year

The Group reported a net loss of $70.3 million for the year ended 31 December 2015 as compared to a net loss of $3.9 million for the year ended 31 December 2014. The increase to the net loss was due primarily to reduced sales revenues resulting from the significant decrease in oil prices during the year as well as an increase to non-cash impairments of $75.1 million for the year ended 31 December 2015. Non-cash impairments were $20.3 million for the year ended 31 December 2014. A portion of the non-cash impairments resulted from the Group having drilled five wells that did not result in commercial economic reserves. As a result, the costs to drill and complete these wells were written off as of 31 December 2015 and totalled $5.2 million. In addition, an impairment charge of $28.9 million has been taken representing impairment of certain production wells which arises due to the reduction in the spot and forward oil price assumptions used in estimating the future discounted cash flows for each well. The Group also assessed the recoverability of its undeveloped assets based upon factors such as market conditions, current spot and forward prices of oil, and future exploration and development plans. Due primarily to the significant reduction in oil prices and no current plans to pursue an aggressive drilling program, an additional $40.5 million was written off or impaired relating to the undeveloped assets as at 31 December 2015. An additional $0.5 million was recorded as impairments for costs incurred during the current period for wells which had been fully impaired in prior periods.

Of the total impairment of $75.1 million, $38.5 million was attributable to exploration costs included in intangible assets and a $36.1 million was attributable to property, plant and equipment. Of the total impairment for property, plant and equipment, $11.5 million was related to leasehold land, $10.2 million was related to plant and equipment and $14.4 million related to production assets. The reminder of $0.5 million was attributable to costs incurred on wells previously fully impaired.

Normalised EBITDA

Normalised EBITDA ("NEBITDA") is presented to provide an analysis of the Group's operations, excluding certain non-cash related items. NEBITDA is defined as operating profit or loss adjusted for interest, income taxes, depreciation, amortisation, test revenue contribution adjustments, and exceptional administrative expenses. For the year ended 31 December 2015 NEBITDA was $14.5 million, compared to $27.6 million for the year ended 31 December 2014. This decline in NEBITDA reflected the precipitous decline in the price of crude oil and a decrease in production volumes, partially mitigated by the Group's commodity derivatives. NEBITDA per gross and net barrel sold was $22.17/bbl and $26.98/bbl for the year ended 31 December 2015, respectively, as compared to $39.20/bbl and $47.93/bbl, respectively, for the year ended 31 December 2014.

The following calculation reconciles the net loss under IFRS to NEBITDA for 2015 and 2014.

	2015	2014
Net loss	$(70,332,136)	$(3,893,234)
Exceptional administrative expenses	72,477,603	20,306,352
Finance income	(173,641)	(367)
Finance costs	5,078,442	5,914,049
Taxation	150,668	(1,855,837)
Normalised operating profit[1]	7,200,936	20,470,963
Depreciation, amortisation and contribution from test revenue	7,285,137	7,103,010
Normalised EBITDA	$14,486,073	$27,573,973

Chief Financial Officer's Statement (continued)

for the year ended 31 December 2015 *(all amounts are shown in US$)*

The following table provides the consolidated income statement to arrive at normalised operating profit and NEBITDA.

	2015	2014
Revenue	$29,608,915	$47,541,974
Cost of sales	(14,866,589)	(19,927,152)
Gross profit	14,742,326	27,614,822
Administrative expenses	(7,541,390)	(7,143,859)
Normalised operating profit[1]	7,200,936	20,470,963
Depreciation, amortisation and contribution from test revenue	7,285,137	7,103,010
Normalised EBITDA	$14,486,073	$27,573,973

1. Normalised operating profit is operating profit adjusted for exceptional administrative expenses.

Production

The results of the Groups production as shown in the following table:

	2015	2014
Gross barrels sold	653,431	703,414
Net barrels sold	536,972	575,275
Daily average barrels sold—gross	1,791	1,927
Daily average barrels sold—net	1,471	1,576
Average sales price per barrel	$40.47	$82.16
Normalised EBITDA per barrel sold—gross	$22.17	$39.20
Normalised EBITDA per barrel sold—net	$26.98	$47.93

The decline in net sales volumes of 38,303 or 6.7% is indicative of normal depletion of the Groups reserves offset by the workover and production enhancement projects performed in 2015.

Revenues

The following is a comparative summary of net oil sales volumes, prices and revenues, including the impact of commodity derivative settlements:

	2015	2014
Oil sales volumes	536,972	575,275
Oil prices	$40.47	$82.16
Oil revenues	21,729,188	47,265,682
Gains on oil price swaps on designated hedging instruments in cash flow hedges of sales revenue reclassified from equity to profit or loss	7,837,223	276,012
Other income	42,504	280
	$29,608,915	$47,541,974

The $25.5 million or 54.0% decline in oil revenues is the result of the 6.7% decrease in produced volumes (previously discussed) and a $41.69 or 50.7% per barrel decline in the price received. The Group, in order to mitigate the effect of volatile oil markets, actively enters into various hedging instruments. As shown above, the Group realised $7.8 million of gains resulting from oil price swaps settled during the year.

Costs

The following is a comparative summary of cost of sales:

	2015	2014
Lease operating costs per gross barrel	$8.82	$10.46
Lease operating costs per net barrel	$10.74	$12.79
Lease operating costs	$5,765,018	$7,358,018
Production severance taxes	1,543,507	4,256,716
Depreciation	6,594,358	5,271,671
Contribution from test revenue	569,521	1,743,846
Production profit shares and royalties	321,030	1,296,901
Other	73,155	-
	$14,866,589	$19,927,152

With the economic decline in the oil and gas industry, the Group has negotiated concessions with suppliers and service providers resulting in a reduction to lease operating costs per barrel despite a decrease in sales volumes. There have also been corresponding reductions to severance taxes, contribution from test revenue, and production profit shares and royalties. Depreciation has increased as a result of a decline to the reserve base which has been adversely impacted by a decline in oil prices and the corresponding reduction in well economics.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2015.

Cash flow, investment and liquidity

The following is a comparative summary of cash flow from operating, investing and financing activities:

	2015	2014
Cash flow from operating activities	$16,663,460	$28,224,478
Cash flow from investing activities		
Purchase of intangible assets	(15,197,473)	(27,253,794)
Purchase of property, plant and equipment	(11,251,875)	(15,002,661)
Other	8,765	1,502,195
Net cash from investing activities	(26,440,583)	(40,754,260)
Cash flow from financing activities		
Repayment of loans	(3,000,000)	(10,000,000)
Proceeds on issue of loans, net of issue costs	7,000,000	27,886,400
Proceeds on issue of convertible loan notes	9,710,000	-
Interest paid	(3,102,589)	(2,787,068)
Other	130,137	764,026
Net cash flow from financing activities	10,737,548	15,863,358
Net increase in cash and cash equivalents	960,425	3,333,576
Cash and cash equivalents at beginning of financial year	5,019,527	1,681,163
Effects of exchange rate changes	(10,467)	4,788
Cash and cash equivalents at end of financial year	$ 5,969,485	$ 5,019,527

Cash flows from operating activities

For the year ended 31 December 2015, cash flow from operating activities was $16.7 million as compared to cash flows of $28.2 million for the year ended 31 December 2014 reflecting the decrease in NEBITDA discussed above.

Net Cash flow from investing activities

For the year ended 31 December 2015, net cash flow used in investing activities was $26.4 million and comprised principally of capital expenditures in the drilling and completion of new wells. For the year ended 31 December 2014, net cash flow used in investing activities was $40.8 million. The decline in spending in 2015 as compared to 2014 of 35.3% was a result of reduced acreage acquisitions and drilling activities commensurate with the decline in economics within the oil and gas industry.

Net cash flow from financing activities

For the year ended 31 December 2015, net cash from financing activities during the year totalled $10.7 million and comprised principally of $16.7 million (year ended 31 December 2014: $27.9 million) raised via debt facilities offset by $3.0 million in debt repayments and $3.1 in interest payments. For the year ended 31 December 2014, net cash flow from financing activities totalled $15.9 million and was comprised of proceeds from debt facilities, offset by $10.0 million in debt repayments and $2.8 million in interest payments.

On 14 August 2015, the Company issued $10.0 million (£6.4 million) of nominal value, unsecured convertible loan notes carrying zero coupon over a period up to March 2019, held by both related parties and unrelated parties. The loan notes are convertible by holders at any time, into such number of ordinary shares as is calculated by dividing the nominal value of notes to be converted by 3 pence, at any time up to and including the redemption date. At 31 December 2015, the loan is convertible into 213,333,333 shares of the Group.

In September 2014, the Group entered into a senior secured reserves based lending (“RBL”) facility with Commonwealth Bank of Australia (“CBA”) with an initial RBL facility amount of up to $100.0 million. Under this RBL facility, the initial borrowing base was $35.0 million, subject to regular redeterminations based upon factors including, but not limited to, petroleum reserves and oil prices. The available borrowing base was subject to a $5.0 million withholding by the bank such that the Group at all times maintains a minimum liquidity requirement, effectively setting the net borrowing base at $30.0 million.

During 2014, the Group drew $23.0 million under the RBL, including $1.1 million of transaction costs. During the first half of 2015, the Group drew an additional $7.0 million to the maximum net borrowing base of $30.0 million. Due to falling oil prices in the second half of the year, on 2 November 2015, CBA decreased the net borrowing base to $27.0 million, resulting in a net borrowing base deficit of $3 million. Under the terms of the RBL, the net borrowing base deficit was required to be repaid in three equal payments of $1.0 million at the beginning of December 2015, January 2016 and February 2016, to reduce the outstanding balance to the new net borrowing base. Simultaneously, the RBL facility was amended to include, among other provisions, a $5.0 minimum liquidity requirement and the elimination of the $5.0 million withholding on the borrowing base amount.

In connection with negotiations to obtain waivers for certain covenant non-compliance, the Group paid the total $3.0 million net borrowing base deficit prior to 31 December 2015, resulting in an outstanding balance as at 31 December 2015 of $27.0 million. Certain requirements and covenants at 31 December 2015 were not in compliance with the loan agreement including the minimum hedging maintenance requirement and the leverage covenant. These non-compliance items were waived by CBA as of year-end with a period of grace until 9 January 2016.

On 8 January 2016, the Group completed additional negotiations with CBA that included a reduction to the net borrowing base from $27.0 million to $23.0 million, the current outstanding balance. As part of the negotiations for waiver extension and additional debt amendments, the Group was required to pay an additional $4.0 million to reduce the outstanding balance to the reduced net borrowing base amount. The RBL facility covenants were amended to revise the leverage ratio and eliminate the minimum liquidity requirement.

At the end of the first quarter of 2016, CBA notified the Group that the borrowing base had been further reduced from $23.0 million to $13.0 million. CBA has provided waivers to allow them and the Group to explore options that would result in resolution of the deficiency, including modification to the existing RBL facility or securing alternative sources of capital to partially or fully extinguish the existing RBL facility. The Group has received additional waivers of non-compliance through 10 June 2016, as of the date of these financial statements. Due to the limited nature of the waivers, the entire outstanding balance under the RBL has been classified as a current liability in the accompanying financial statements. Management is confident that a mutually beneficial agreement can be reached with CBA on the RBL.

From the initial draw on the RBL in September 2014, the Group used a portion of the proceeds to repay $10.0 million of debt provided by major shareholders and the remaining portion to fund activities around the exploration and development of oil reserves.

As part of entering into the RBL, the maturities for all existing debt instruments at that time were extended to March 2019 or later, together with extensions to the related warrants.

At 31 December 2015, the Group held cash balances of $6.0 million as compared to $5.0 at 31 December 2014.

Hedging

As part of managing the Group's liquidity position, during 2014, the Group commenced a commodity hedging program in order to provide more certainty around future operational cash flows and liquidity. As at 31 December 2015, the Group held the following oil commodity derivative hedge positions:

	2016	2017
Swap contracts		
Total remaining volumes (bbls)	168,105	17,350
Price (WTI NYMEX; average)	$62.51	$75.30
Costless collar contracts		
Total volumes (bbls)	28,986	-
Ceiling	$70.10	-
Floor	$55.00	-

Note: All commodity derivative hedge prices are WTI NYMEX, averaged across the total contracts for swap contracts.

For the commodity hedging activities entered into during 2014 and the first half of 2015, the Group elected to apply IFRS hedge accounting in respect of the Group's commodity derivative hedge positions. Hedge accounting mitigates the profit and loss volatility through the income statement that can arise through the use of derivatives. The Group's oil commodity derivative hedges were designated as cash flow hedges and, accordingly, subject to remaining effective, much of the derivative volatility arising from mark-to-market positions on open contracts at period ends will be recorded as an equity movement in the cash flow hedge reserve rather than through the income statement. On utilisation of the oil swaps when the oil sales take place, the amounts held in equity are recycled to revenue. In the third quarter of 2015, the Company entered into one swap contract that is accounted for as a mark-to-market hedge instrument through profit or loss.

Shareholders' equity

As at 31 December 2015 there were 964,076,330 ordinary shares of 0.25 pence each in issue. Additionally, as at 31 December 2015, a total of up to 652,383,333 new ordinary shares may be issued pursuant to the exercise of share options, warrants or convertible loan notes.

Chief Financial Officer's Statement (continued)

for the year ended 31 December 2015 *(all amounts are shown in US$)*

Cautionary Statement

This Annual Report contains certain judgements, forward-looking statements and assumptions that are subject to the normal risks and uncertainties associated with the exploration, development and production of hydrocarbons. Whilst the Directors believe that expectations reflected throughout this Annual Report are reasonable based on the information available at the time of approval of this Annual Report, actual outcomes and results may be materially different due to factors either beyond the Group's reasonable control or within the Group's control but, for example, following a change in project plans or corporate strategy. Therefore, absolute reliance should not be placed on these judgements/assumptions and forward-looking statements.

Kurtis Hooley
Chief Financial Officer

1 June 2016

Board of Directors and Senior Management

Board of Directors

Richard (Rick) McCullough, Executive Chairman
Rick joined Nighthawk in October 2014 as Executive Chairman and has over 30 years' experience in the US energy and oil and gas industries with over 20 years at the executive level. He served with NASDAQ listed PDC Energy Inc. as Chief Financial Officer from 2006 to 2008 and as Chief Executive and then Chairman from 2008 until 2011, where he led a strategic turnaround resulting in an almost four-fold increase in share price. In 2011, he was named as CEO of the year for US mid-cap companies by Investor Relations Magazine. Prior to joining PDC Energy, Rick served as President and Chief Executive Officer at Gasource, LLC and as an investment banker at JP Morgan. During his career, he has led teams in completing over three billion dollars of transactions in the energy markets.

Rick is Chairman of the Nomination Committee and a member of both the audit and remuneration committees.

Charles (Chuck) Wilson, Chief Operating Officer
Chuck joined Nighthawk in August 2011 and was appointed to the Board of Directors on 1 April 2014. Chuck has over 30 years of experience in the oil and gas industry ranging from drilling, completion and production operations to surface equipment installations, including horizontal drilling in the Bakken. Prior to Nighthawk, he was VP of Engineering and Operations for Gasco Energy Inc. Previously he was the U.S. Onshore Drilling Manager for Denver-based Forest Oil Company, a NYSE-listed exploration and production company. He holds a BS degree in Petroleum Engineering from the University of Wyoming and in addition has held several positions within the Society of Petroleum Engineers and the American Association of Drilling Engineers.

Johan Claesson, Non-executive
Mr. Claesson was appointed to the Board of Directors on 1 April 2014. He is a Swedish national whose principal business interests are in property development and real estate and is a director of a number of listed companies. He has a controlling interest in and is chairman of Claesson and Anderzen AB ("C&A") which, indirectly, is the Company's largest shareholder.

Johan is Chairman of the Remuneration Committee and serves on the Nominating Committee.

Stuart Eaton, Non-executive
Mr. Eaton joined the Board of Nighthawk in February 2010. He was Head of UK Equity Alpha at Insight Investment Management Limited. Founded by HBOS in 2002, Insight had assets under management of £119 billion in 2009. Stuart joined Insight in May 2005 and was responsible for the management of UK equity long only portfolios.

Stuart is Chairman of the Audit Committee and member of the Remuneration and Nominating committees.

Senior Management

Kurtis Hooley, Chief Financial Officer
Kurtis joined Nighthawk 7 November 2015 and has over 10 years' experience in the US energy and oil and gas industries and over 15 years at the executive level. Prior to Nighthawk, Kurtis was Chief Operating and Chief Financial Officer of Double Eagle Petroleum Co. from September 2012 to January 2014, and was with Double Eagle since 2003 and served in several capacities, including Senior Vice-President and Chief Financial Officer since 2007, and as the Director of Business Development and Financial Planning from 2006 to 2007. From 2003 to 2006, Kurtis was President of MKH Enterprises, a consulting firm primarily focused on the implementation of Sarbanes-Oxley internal control procedures and technical accounting pronouncements. Prior to this, Kurtis served in numerous management positions, including a number of accounting capacities with Arthur Andersen LLP, most recently as an Experienced Audit Manager. Kurtis is a Certified Public Accountant (inactive) and has a Bachelor of Science in Accounting from Regis University.

US Operations staff are based in Denver, Colorado, USA and are employed by the Group's US subsidiary

Strategic Report
for the year ended 31 December 2015

The Directors present their Strategic Report for the year ended 31 December 2015.

Principal Activities and Business Review

Nighthawk Energy plc is a UK registered company whose subsidiaries are focused principally on the exploration and development of oil producing assets located in and around Lincoln County, Colorado, United States of America.

A review of the Group operations during the year ended 31 December 2015 is contained in the Chairman's Statement.

There was a net loss for the year amounting to $70,332,136 for the year ended 31 December 2015 as compared to a net loss of $3,893,234 for the year ended 31 December 2014.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2015. No dividend was paid for the year ended 31 December 2014. A review of the Group's financial results for the year is contained in the Chief Financial Officer's Statement.

Review of the Group's Business and Strategy

The Group's business strategy is focused on generating value for shareholders by:

- Focusing on a large scale asset where success is likely to be replicable
- Use of all available geological data to identify drilling locations with the highest probability of discovering commercial quantities of hydrocarbons
- Low cost, water flood project which increases production and overall recovery
- Low cost, vertical drilling to test the existence of hydrocarbons, as market conditions dictate
- Low cost, non-complex techniques to stimulate oil-flow and production as quickly as possible after drilling
- Efficient marketing arrangements

Nighthawk's primary business activity is the exploration for, development and sale of, hydrocarbons. The Group operates solely in the state of Colorado USA where it currently owns interests in over 170,000 net mineral acres in and around Lincoln County.

The Group's net revenue interest is determined by the arrangements to pay royalties to landowners and others and varies by lease in a range of 80-85% of the total revenue interest.

The primary business purpose requires the Group to engage in a range of activities including:

- The acquisition of seismic and other geological data to assist in formulating the exploration plan
- Drilling of wells to determine the existence, extent, production capability and commerciality of hydrocarbon deposits
- The installation of production equipment and pipelines
- The sale of hydrocarbons
- The maintenance of all equipment and well-bores including the plugging and abandonment of un-commercial or depleted wells
- Adherence to all State and Federal requirements in respect of environmental, health and safety factors
- Maintenance of existing land leases and addition of new land leases
- Accounting for all revenues and costs associated with the primary business purpose

During the year ended 31 December 2015, the Group engaged in the following activities as part of its primary business purpose:

- Entered into two joint development agreements ("JDA's") in the Monarch and El Dorado areas.
- Drilled six wells, four in the Monarch JDA area, one in the Arikaree Creek area and one in the Broken Spear area.
- Three of these six wells were brought into production; the remaining three were abandoned.
- No existing wells were plugged and abandoned.
- Completed two wells which were in-progress at 31 December 2014, of which one was brought into production.
- Achieved sales of 653,431 gross (536,972 net) barrels of oil and generated revenues of $29.6 million. This is compared to 2014 sales of 703,414 gross (575,275 net) barrels of oil with revenues of $47.5 million.
- Filed and in March 2016, received conditional approval of an application with the Colorado Oil and Gas Conservation Commission ("COGCC") to implement a water flood project in the Southern portion of the Company's existing Arikaree Creek area.
- Properly maintained all its field production equipment and well bores.
- Achieved full compliance with all State and Federal laws and guidelines.
- Maintained its land leasehold position over areas that the Group considers to be prospective for hydrocarbons.
- Published timely financial reports and accounts.

In the near future, the Group expects to pursue its strategy of developing the above noted water flood project, application of knowledge obtained by prior seismic activities in the Monarch JDA acreage and enter into strategic partnership or joint ventures.

Key Performance Indicators ("KPI's")

The Board regularly reviews the KPI's of the business and the Group's progress towards achieving its objectives.

The key performance indicators monitored by the Board and senior management in 2015 included:

- Gross barrels produced by well reported internally on a daily basis and sales by well on a monthly basis
- West Texas Intermediate and realized oil prices monitored on a regular basis
- Performance of wells against operating costs
- Actual capital expenditures against budget
- Earnings before interest, tax, depreciation, amortization and exceptional items ("Normalised EBITDA") and Normalised EBITDA per barrel

During the year ended 31 December 2015, the KPI's were as follows:

- Total gross oil sold for the year ended 31 December 2015 amounted to 653,431 gross barrels of oil (536,972 net) as compared to 703,414 gross barrels of oil (575,275 net) for the year ended 31 December 2014.
- The average sales price per barrel in 2015 was $40.47 versus $82.16 per barrel for 2014.
- Total lease operating costs for the year ended 31 December 2015 were $5.8 million as compared to $7.4 million for 2014 or an equivalent to $8.82 per gross barrel sold ($10.74 net) for 2015 and $10.46 per gross barrel ($12.79 net) for 2014.
- Capital expenditures for 2015 totaled $26.4 million. The average budgeted cost (AFE) for new wells drilled and completed in 2015 was $1.7 million and the average actual cost was $1.7 million. There were no material variations in capital expenditures from AFE during 2015; through cumulative knowledge gained from past drilling, the Group avoided variances that were attributable to issues encountered whilst drilling which are common to the industry such as equipment stuck downhole, coring taking longer than expected due to complex, fractured reservoir rock and to decisions made by the Company to not carry out additional procedures on new wells not envisaged in the original AFE.
- The Group's Normalised EBITDA was $14.5 million in 2015 or $22.17 per gross barrel of oil sold as compared to $27.6 million or $39.20 per gross barrel of oil sold for 2014.

Financial Risk Management and Objectives

The Company uses various financial instruments including cash, equity shares, loans and borrowings, convertible loan notes, commodity hedging derivatives and items such as receivables and payables that arise directly from its operations. The existence of these financial instruments may expose the Company to financial risks, which are described in Note 28 in the Notes to the Consolidated Financial Statements.

Principal Risks and Uncertainties

The Directors are responsible for the effectiveness of the Group's risk management activities and internal control processes. As a participant in the oil and gas exploration and production industry, the Group is exposed to a wide range of risks and uncertainties in the conduct of its operations.

Set out below are the principal risks and uncertainties that may affect performance. Such risks and uncertainties are not intended to be presented in any order of priority. The Directors and senior management have significant experience and continually take steps to mitigate and review risks as far as possible and reasonably practicable. Any of the risks set out below, as well as any other risks and uncertainties referred to in this annual report, could have a material adverse effect on business performance. In addition, the risks set out below are not exhaustive and additional risks and uncertainties, not presently known to the Directors, or which the Directors currently deem immaterial, may arise or become material in the future.

Financial risks

- Oil price movements
- Failure to be able to renegotiate RBL facility
- Borrowing base reductions
- Cost inflation
- Inadequate capital expenditure estimates
- Adverse taxation legislative changes
- Third party counterparty credit risk
- Adverse foreign exchange movements
- Insurances may not cover all liabilities
- Contractual exposure

Operational risks

- Failure to find hydrocarbons in commercial amounts when drilling
- Production decline
- Exploration, appraisal or development well failures
- Failure of proposed water flood project
- Dependence on one project only
- The Group's project in eastern Colorado is early stage with few wells which may not be indicative of the entire acreage
- Loss of key personnel
- Delay and cost overrun on work programs
- Health, Safety and Environmental incidents
- Poor or sub-commercial reservoir performance
- Exploration, appraisal or development well failures
- Failure of equipment or third party services
- Leasehold expiries or failure to meet terms and conditions for maintenance of leases
- Failure to keep pace with technological advances
- Failure to comply fully with local, State and national industry regulations
- Availability of drilling and production equipment

Strategic, industry and external risks

- Failure to receive COGCC final approval of the water flood project
- Availability of capital to fund on-going appraisal and development of the water flood project
- Commercial misalignment with joint venture partners
- Continued material decline in oil price
- Highly competitive industry with numerous significant, financially-strong participants
- Legislation and regulation may increase industry operating costs and/or reduce demand for hydrocarbons

Of these identified risks, the primary risks and actions taken to mitigate such risks are summarised in more detail below:

Failure to be able to renegotiate RBL facility–as previously discussed, the Group is in negotiations with its RBL lender, Commonwealth Bank of Australia ("CBA"). The Company currently has waivers through 10 June 2016 for non-compliance of certain covenants and requirements under the RBL. Failure to renegotiate this facility or secure alternative funding would significantly impair the Company's ability to execute on the 2016 plan of development and would result in events of default under the loan agreement. The Group actively continues to meet and discuss opportunities and options with CBA. Refer to Note 2 in the Notes to the Consolidated Financial Statements.

A significant or sustained reduction in oil prices–The Board and management monitor oil prices and analyse events of a business, political or environmental nature that might affect future prices. The Board and management execute oil derivative contracts to reduce the Group's exposure to fluctuating oil prices and to protect its future cash flow.

Failure to find hydrocarbons when drilling–All geological data is closely analysed by the geological and operational team before choosing drilling locations. Any publicly available data or data acquired from other operators is also used. The Company's approach to drilling is keep it simple and perform low-cost vertical drilling. This limits the average estimated cost of a dry-hole to $600,000-$750,000.

Inability to produce hydrocarbons–The area of the Denver-Julesberg basin in which the Group operates is generally regarded as a low-pressure basin where it is unusual for oil to flow to the surface under natural pressures. In wells where oil is encountered, Nighthawk uses mild stimulation of the reservoir to encourage oil-flow to the well bore, swabbing to test the quality and quantity of oil potentially producible and pumps to lift the oil to surface. Nighthawk does not currently regularly use hydraulic fracturing techniques on its wells. Nighthawk only invests in tangible surface and downhole production equipment if the quality and quantity of oil are deemed commercially viable.

Failure to receive regulatory approval for water flood–Company has filed all required amendments to water flood application for the water flood pilot project and has performed all requirements under conditional approval from the COGCC. In addition, the Company has received over the required 80% non-cost bearing owners approval for the water flood pilot project, which was one of the key conditions set forth by the COGCC.

Production is not sustainable–Production by well is monitored on a daily basis. The majority of Nighthawk's wells have oil reserve potential in a number of different zones and at different depths. If production from a particular formation falls below commercially acceptable levels, Nighthawk has two primary options – workover or further stimulation of the formation to re-establish oil-flow, or to close the non-producing formation and come up the well-bore to test another zone. Once a well is no longer commercially viable in any form the well is plugged and abandoned.

For the proposed water flood pilot project to be implemented in 2016, the Company has compiled extensive technical data, including existing well bore data, production results and 3-D seismic to support the increased production volumes anticipated from the water flood pilot project scheduled to be implemented during 2016.

Employees

At the date of this report, the Board of Directors is comprised of two executive and two non-executive Directors, all male, of which one is based in the UK, two in the USA and one in Sweden.

Details of the Group's approach to governance and Board structure are set out in the Corporate Governance section contained in this Annual Report. Details of the Group's approach to Board remuneration are set out in the Remuneration Report also contained in this Annual Report.

The Group's primary operational centre is Denver, Colorado, USA. At the date of this report, the Group employs or contracts 17 full time people in Colorado, comprised of 4 females, 13 males, with a range of skill and expertise covering operations, drilling, geology, reservoir engineering, land and finance.

All full-time staff receive a competitive base salary with holidays, pension contributions and health and insurance coverage. The Group believes in aligning all staff with shareholder interests so share option awards have historically been made to staff.

Location	Directors	Executive Management	Other Office based staff	Operational field staff
UK	1	-	-	-
Denver, USA	2	3	9	5
Sweden	1	-	-	-

Environment, Health and Safety

The Board and management are committed to maintaining the highest standards in respect of environmental, health and safety matters. All statutory obligations both in the UK and in the USA are fully complied with.

As an operator in the oil industry, the Board and management are aware of the risks to safety and the environment from operational incidents. To mitigate risk, the Group's senior management in Denver has substantial operating experience, the staff are properly trained and appropriately qualified, and regular on site safety briefings are held during drilling and work-over programs. The Group has procedures in place for dealing with, and reporting on, incidents such as spillages or lost time injuries.

Social Responsibility

The Group's Colorado operations are in a sparsely populated area where the primary occupation is in farming and ranching. The Group through its operational team maintains good relations with those landowners from whom it has leased land. Where production is established, the Group pays royalties to the landowners, resulting in a substantial contribution to the local economy, in addition to the direct and indirect impact through employment opportunities generated by the Group's operations.

On behalf of the Board of Directors

Rick McCullough
1 June 2016

Directors' Report
for the year ended 31 December 2015

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2015.

Directors and their interests

Set out below are the beneficial and other interests of the Directors, holding office during the period, and their families, in the shares and share options of the Company at 31 December 2015 and 2014.

	31 December 2015		31 December 2014	
	Ordinary shares Number	Share options Number	Ordinary shares Number	Share options Number
Mr R McCullough	1,100,000	2,000,000	1,100,000	2,000,000
Mr C Wilson	725,000	6,900,000	725,000	6,900,000
Mr R Swindells[2]	n/a	n/a	876,803	10,000,000
Mr J Claesson[1]	159,365,297	-	159,365,297	-
Mr S Eaton	1,496,500	1,500,000	1,496,500	1,500,000

Notes:

1. The holdings attributed to Mr J Claesson are held in his own name and in associated entities. He is also interested in the unsecured loans of the Company, all as further disclosed in Notes 19 and 32 in the Notes to the Consolidated Financial Statements.
2. Mr R Swindells retired from the board and employment was terminated on 7 November 2015.

Further details of the share options held by Directors are set out in the Remuneration Report.

Retirement and re-election of Directors

Messrs. Wilson and Claesson will retire in accordance with the Company's Articles of Association and offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' and officers' indemnity insurance

The Company maintains insurance against claims by third parties against its Directors and officers in respect of their lawful actions in connection with the discharge of their duties as directors and officers of the Company.

Share capital

At 31 December 2015, 964,076,330 ordinary shares of 0.25p each are issued and fully paid. Each ordinary share carries one vote. Except for shares issued in connection with the exercise of options, during the period, the Company issued no additional new ordinary shares. Additionally, at 31 December 2015, there are share options, warrants and convertible loan notes outstanding that, if exercised or converted, would require a further 652,383,333 new ordinary shares of 0.25p each to be issued.

Further details of all changes to the issued share capital can be found in Note 20 on the Notes to the Consolidated Financial Statements.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2015. No dividend was paid for the year ended 31 December 2014.

Substantial shareholders

As at 16 May 2016, the Company is aware of the following shareholders with interests in excess of 3% of the issued ordinary share capital of the Company:

	Ordinary shares Number	Percentage Ordinary share capital
Mr Johan Claesson[(1)]	159,365,297	16.5%
Mr Peter Gyllenhammar[(2)]	99,767,867	10.3%
Barclayshare Nominees Limited	61,307,429	6.4%
TD Direct Investing Nominees (Europe) Limited, a/c SMKTNOMS	52,712,440	5.5%
Vidacos Nominees Limited	37,852,707	3.9%
HSDL Nominees Limited	29,364,807	3.0%

Notes to the substantial shareholders table:
1. Mr Johan Claesson is a director of the Company and is the direct and indirect owner of more than 50% of Claesson & Anderzén AB that owns indirectly 100% of Fastighets AB Korpralen, holding 106,480,797 shares in Nighthawk Energy plc. Mr Claesson holds 24,584,500 shares in his own name and 28,300,000 shares in his 100% privately owned company Johan och Marianne Claesson AB.
2. Mr Peter Gyllenhammar's holding is held by Bronsstädet AB, of which he is 100% owner.

The above substantial shareholder information has been compiled by the Company based upon shareholding notifications received by the Company and its analysis of the shareholder register.

Personnel

The Group employed 16 people and contracted one person full time at 31 December 2015. At 31 December 2014, the group had 21 employees. The Group also contracts consultants on certain projects and in certain operational areas such as geoscience, land management and financial control.

Future development of the Group's business

Information on the future development of the Group's business is included in the Strategic Report at "Review of the Group's Business and Strategy".

Financial Risk Management and Objectives

See "Financial Risk Management and Objectives" included at page 14 of this Annual Report and Consolidated Financial Statements.

Subsequent Events

As disclosed in Note 36 to the Consolidated Financial Statements and Note 8 to the Parent Company Financial Statements, the following significant events have occurred since the balance sheet date:

- Debt agreement waivers and extensions
- Conditional approval of regulatory filing
- Running Foxes Petroleum litigation

Auditors

A resolution to reappoint BDO LLP will be proposed at the forthcoming Annual General Meeting.

Disclosure of Information to the Auditors

The Directors at the date of approval of this Annual Report individually confirm that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors have not been made aware of; and
- the Director has taken all of the necessary steps to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of any such information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

Going concern

In considering the Groups ability to continue as a going concern, the Directors have assessed whether the Group has adequate resources to enable it to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Currently, the Group is meeting its day-to-day financial responsibilities and oil prices are trending upward. Successful implementation of the water flood pilot project is expected to provide adequate cash flow for the foreseeable future to meet operating cash flow requirements. However, following the reduction in the Group's borrowing base in Q1 2016 and the non-compliance with certain covenants, the Group's ability to meet its obligations as they fall due is dependent upon the Group's ability to re-negotiate its RBL with CBA or secure alternative funding. These circumstances, together with the unknown outcome of the water flood pilot project approval process, are considered to create a material uncertainty which creates doubt about the Group's ability to continue as a going concern. Refer to Note 2 to the Notes to the Consolidated Financial Statements.

Board committees

Information on the Audit, Remuneration and Nomination Committees is included in the Corporate Governance section of the Annual Report.

Company Name and Registered Number

The registered number of Nighthawk Energy plc is 04000483.

Annual General Meeting

The Annual General Meeting will be held on 30 June 2016 as stated in the Notice of Meeting, which accompanies this Annual Report.

On behalf of the Board of Directors

Rick McCullough
Executive Chairman

1 June 2016

Remuneration Report
for the year ended 31 December 2015

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all Directors and Senior Executives. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and senior executive team.

Directors' remuneration

The following remuneration table comprises Directors' fees and benefits in kind that were payable to Directors who held office during the year ended 31 December 2015:

	For the year ended 31 December 2015				2014
	Basic salary/fees	Pension contribution	Benefits in kind	Total	Total
Mr S Gutteridge[1]	-	-	-	-	$232,863
Mr R McCullough[2]	$320,572	-	-	$320,572	$79,375
Mr C Wilson[3]	$369,600	$13,636	$34,383	$417,619	$381,491
Mr R Swindells[4]	$372,873	$36,229	$50,960	$460,062	$306,518
Mr J Claesson[3]	$45,763	-	-	$45,763	$32,910
Mr S Eaton	$48,814	-	$9,631	$58,444	$57,329

Notes:
1. Mr S Gutteridge retired from the Board of Directors on 30 September 2014
2. Mr R McCullough was appointed to the Board of Directors on 1 October 2014
3. Messrs C Wilson and J Claesson were appointed to the Board of Directors on 1 April 2014
4. Mr R Swindells retired from the Board of Directors on 7 November 2015. As part of his separation from the Company, Mr. Swindells received $129,840 (£86,250) of severance payments, along with pension contribution and payment of accrued vacation. All amounts are included in the above table.

In addition to the remuneration shown above, the Group incurred non-cash share based payment charges of $153,213 during 2015 and $260,411 for the year ended 31 December 2014, in respect of the above named Directors. Such charges are based on IFRS accounting measures, rather than being the fair value of options exercised in the year.

All service agreements and/or letters of appointment for Directors are terminable in the ordinary course by either party on up to a maximum of 12 months' notice. Copies of such agreements and/or letters of appointment for each director are available for inspection at the Company's US offices.

Share Options

The Group operates a share option scheme in which Directors, senior executives and employees of the Company and its subsidiaries may be invited to participate by the Remuneration Committee.

During the period, no options were granted to employees of the Company's subsidiaries. Options over 1,700,000 ordinary shares were exercised during the period and options over 5,300,000 ordinary shares expired during the period. The 1,700,000 share options exercised during the year were by Steve Gutteridge, who retired from the Board of Directors on 30 September 2014. There was no gain during the financial year on exercised options for the highest paid director.

Share Awards

During the period, no Share Awards over ordinary shares were made to Directors. The interests of the Directors to subscribe for ordinary shares have not changed since the year end.

The following share options table comprises share options and share awards held by Directors who held office during the year ended 31 December 2015:

	Options held at 1 January 2015	Options granted in period	Options exercised in period	Options lapsed in period	Options held at 31 December 2015	Exercise price (p)	Exercisable from	Exercisable to
Mr R McCullough	2,000,000	-	-	-	2,000,000	0.25	See note 4 below	
	2,000,000	-	-	-	2,000,000			
Mr C Wilson	6,000,000	-	-	-	6,000,000	5.0	*See note 1 below*	
	900,000	-	-	-	900,000	6.24	*See note 2 below*	
	6,900,000	-	-	-	6,900,000			
Mr R Swindells[5]	2,000,000	-	-	-	2,000,000	8.0	31/05/14	30/05/21
	6,000,000	-	-	-	6,000,000	5.0	*See note 1 below*	
	600,000	-	-	-	600,000	6.24	*See note 2 below*	
	700,000	-	-	-	700,000	7.25	*See note 3 below*	
	700,000	-	-	-	700,000	0.25	*See note 4 below*	
	10,000,000	-	-	-	10,000,000			
Mr J Claesson	-	-	-	-	-	-	--	
	-	-	-	-	-	-	--	
Mr S Eaton	500,000	-	-	-	500,000	8.0	31/05/14	30/05/21
	1,000,000	-	-	-	1,000,000	5.0	*See note 1 below*	
	1,500,000	-	-	-	1,500,000			

Notes to share options table:

1. The Remuneration Committee had determined in prior years that 30% of the shares under this option vested on the Group achieving a gross average production over a continuous 90 day period of 350 barrels of oil per day. The shares under option are exercisable from 20 May 2013 to 23 January 2022. During the year the Remuneration Committee determined that the remaining 70% of shares under option vested in accordance with their terms on the share price achieving an average of 12p per Ordinary Share over a period of 30 consecutive business days. Accordingly the remaining 70 per cent of these shares under option are exercisable from 21 May 2014 to 23 January 2022.
2. In the prior year the Remuneration Committee determined that these options vested in accordance with their terms on the share price achieving an average of 12p per Ordinary Share over a period of 30 consecutive business days within two years of the date of grant. Accordingly, these shares under option became exercisable from 21 May 2014 to 19 July 2015. In accordance with the settlement agreement between the Group and Mr. Swindells, his shares were extended and remain exercisable until 19 January 2019.
3. These share options were issued subject to a subscription premium of 0.65p per share option payable by the grantee and became exercisable immediately on issue from 19 July 2013 to 19 July 2015.
4. On 2 October 2014, the Remuneration Committee issued these share options as Share Awards. The awards are based on certain vesting conditions which are share price performance over a 27 month period and value realised in any future change of control event. The minimum price at which any award can be made is 11.66 pence per ordinary share, 25% above the closing mid—market price of ordinary shares on 1 October 2014. Mr McCullough's award is conditional on him purchasing and holding a minimum of 750,000 ordinary shares throughout the performance period. In accordance with the settlement agreement between the Group and Mr. Swindells, these shares were extended and remain exercisable until 31 December 2017.
5. Mr R Swindells retired from the Board of Directors on 7 November 2015. His holding of share options disclosed in this table at the close of the year is as at his retirement date. In accordance with the settlement agreement between the Group and Mr. Swindells, these shares were extended and remain exercisable in accordance with the above stated provisions.

Restricted Stock Scheme

The Remuneration Committee does not intend to make any awards under any Restricted Stock Scheme and will instead consider an alternative incentive scheme or schemes for Group staff.

Johan Claesson
Chairman of the Remuneration Committee

1 June 2016

Corporate Governance
for the year ended 31 December 2015

Companies on the AIM Market of the London Stock Exchange are not required to comply with the UK Corporate Governance Code (the "Code") and due to its size; the Company does not seek to comply in full with the Code. While the Company is not required to present a Corporate Governance Statement, as it is not subject to the Listing rules of the Financial Conduct Authority, it has disclosed here certain information in respect of Corporate Governance.

The Directors support high standards of corporate governance. The Company has identified areas of the Code it considers relevant to the current size and nature of the Group's operations and these are set out below.

The Board

The UK Corporate Governance Code recommends that at least half the Board of Directors of a listed company (excluding the chairman) should comprise independent non-executive Directors and should include a balance of executive and non-executive Directors (and, in particular, independent non-executive Directors). The UK Corporate Governance Code also states that the board of a company should determine whether a director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. Currently the Board comprises four Directors, the Chairman, the Chief Operating Officer and two non-executive Directors, of which one is deemed independent. The Directors consider the board structure to be a satisfactory balance for the purposes of decision-making at the Board level. In determining whether Stuart Eaton, being a non-executive Director of the Company, should be considered independent, and having regard to the UK Corporate Governance Code, whilst the Board notes that he has a shareholding and options over Ordinary Shares, those are not considered sufficiently material to affect his independence and accordingly the Board considers him to be independent in character and judgment.

The Board meets at least eight times a year and is responsible for strategy, performance and approval of any major capital expenditure and the framework of internal controls. The Board has adopted a schedule of matters reserved for consideration by the Board, including, amongst others, approval of the Group's long term objectives, policies and budgets, changes relating to the Group's management structure, approval of the Group's annual report and accounts, approval of the dividend policy and ensuring maintenance of sound systems of internal control and risk management. To enable the Board to discharge its duties, all of the Directors receive full and timely information and, if necessary, the non-executive Directors may take independent professional advice at the Group's expense.

In accordance with the Company's Articles of Association, all Directors must retire and may offer themselves for re-election by shareholders at least every three years at the Annual General Meeting and, on first appointment, at the first Annual General Meeting after appointment, provided that at least one third of the Board retires and offers itself for re-election at any Annual General Meeting.

As envisaged by the UK Corporate Governance Code, the Board has established three committees: an Audit Committee, a Remuneration Committee and a Nomination Committee, each with formally delegated duties and responsibilities and written terms of reference. The members of these committees currently comprise the Chairman and the independent non-executive Director. If the need should arise, the Board may set up additional committees to consider specific issues as appropriate. A brief description of the terms of reference of the committees is set out below.

Audit Committee

The Audit Committee currently comprises the independent non-executive Director, being Stuart Eaton (chairman), and Rick McCullough. The Audit Committee considers, *inter alia* (i) the integrity on the Notes to the Consolidated Financial Statements of the Group, including its annual and interim accounts, and the effectiveness of the Group's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the Group's auditors. The Audit Committee supervises and monitors, and advises the Board on, risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Group of financial information and a number of other audit related issues. The Audit Committee meets at least twice a year.

Remuneration Committee

The Remuneration Committee currently comprises Johan Claesson (chairman), Stuart Eaton and Rick McCullough. The Remuneration Committee has as its remit, *inter alia*, the review of, amongst other matters, the remuneration of executive Director and any share option or other equity incentive plans or other bonus plans of the Group and to make recommendations on such matters to Board. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Group. The remuneration of non-executive Directors is a matter for the Chairman and the executive Directors. No Director or manager may be involved in any decisions as to his/ her own remuneration. The Remuneration Committee meets at least once a year.

Nomination Committee

The Nomination Committee comprises Rick McCullough (chairman), Johan Claesson and Stuart Eaton. The Nomination Committee's remit is, *inter alia*, to prepare selection criteria and appointment procedures for members of the Board and to review on a regular basis the structure, size and composition of the Board. In undertaking this role, the Nomination Committee refers to the skills, knowledge and experience required of the Board given the Group's stage of development and makes recommendations to the Board as to any changes. The Nomination Committee also considers future appointments in respect of the Board's composition as well as making recommendations regarding the membership of the Audit and Remuneration Committees. The Nomination Committee meets at least once a year.

Attendance

Attendance records for Directors who served during the year ended 31 December 2015 are set out below.

	Board		Remuneration Committee		Audit Committee		Nomination Committee	
	Meetings	Attended	Meetings	Attended	Meetings	Attended	Meetings	Attended
Mr R McCullough	15	15	1	1	2	2	1	1
Mr C Wilson	15	15	NA	NA	NA	NA	NA	NA
Mr R Swindells	15	15	NA	NA	2	2	NA	NA
Mr J Claesson	15	15	1	1	NA	NA	1	1
Mr S Eaton	15	15	1	1	2	2	1	1

Relations with shareholders

Communication with shareholders is given a high priority by the Board of Directors, which takes responsibility for ensuring that a satisfactory dialogue takes place. Directors may meet with the Company's institutional shareholders following key announcements and at other appropriate times. The Chairman and Chief Financial Officer are also in regular contact with stockbrokers' analysts. The Company has developed a website containing investor information to improve communication with individual investors and other interested parties.

Internal Controls

The Board is responsible for establishing and maintaining the Group's system of internal controls and importance is placed on maintaining a robust control environment. Procedures which the Board has established with a view to ensuring effective internal controls include a monthly management reporting process to enable the Board to monitor the performance of the Group; preparation, adoption and monitoring of a comprehensive annual budget for the Group; maintaining appropriate treasury management policies; maintaining policies for major business risks faced by the Group and determining the appropriate courses of action to manage those risks; and preparation of fully consolidated management information on a regular basis.

The Board also recognises that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The effectiveness of the system of internal controls operated by the Group will therefore be subject to regular review by the Board in the light of the future development of the Group.

By order of the Board of Directors

Kurtis Hooley
Company Secretary

1 June 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Parent Company Financial Statements in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for Companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the consolidated financial statements;
- state whether the Parent Company financial statements have been prepared in accordance with applicable UK Accounting Standards, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor’s Report

Independent Auditor’s Report to the members of Nighthawk Energy plc

We have audited the financial statements of Nighthawk Energy Plc for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Parent Company Balance Sheet, the Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRS). The financial reporting framework that has been applied in their preparation of the parent company financial statements is applicable law, Financial Reporting Standard 100 Application of Financial Reporting Requirements (“FRS 100”) and Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors’ responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council’s (FRC’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC’s website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and the parent company’s affairs as at 31 December 2015 and of the group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements (“FRS 100”), Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”) and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the group's ability to continue as a going concern. The group's cash flow forecasts indicate that its ability to meet its liabilities as they fall due for next 12 months is dependent upon successfully renegotiating the Commonwealth Bank of Australia ('CBA') existing loan facility on terms acceptable to the Company or securing alternative funding. Whilst the Directors are confident that the loan facility can be renegotiated or alternative funding secured, the outcomes of these negotiations are unknown.

These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ryan Ferguson (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

1 June 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
(all amounts are shown in US$)

	Notes	For the Year Ended 31 December 2015	2014
Continuing operations:			
Revenue	4	$ 29,608,915	$ 47,541,974
Cost of sales		(14,866,589)	(19,927,152)
Gross profit		14,742,326	27,614,822
Administrative expenses		(7,541,390)	(7,143,849)
Exceptional administrative expenses	9	(72,477,603)	(20,306,352)
Total administrative expenses		(80,018,993)	(27,450,201)
Operating profit (loss)	5	(65,276,667)	164,621
Finance income		173,641	367
Finance costs	8	(5,078,442)	(5,914,059)
Loss before taxation		(70,181,468)	(5,749,071)
Taxation	10	(150,668)	1,855,837
Net loss		$(70,332,136)	$ (3,893,234)
Attributable to:			
Equity shareholders of the Company		$(70,332,136)	$ (3,893,234)
Loss per share from continuing operations	11		
Basic loss per share		$(0.07)	$(0.00)
Diluted loss per share		$(0.07)	$(0.00)

Consolidated Statement of Comprehensive Income and Expenditure

(all amounts are shown in US$)

	For the Year Ended 31 December	
	2015	2014
Net loss	$(70,332,136)	$ (3,893,234)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange gains on consolidation	1,247,495	1,206,835
Gain on hedging instruments designated as cash flow hedges	6,304,905	6,136,124
Deferred tax on hedging instruments designated as cash flow hedges	(2,244,635)	(2,086,282)
Items reclassified to profit or loss:		
Gain on hedging instruments designated as cash flow hedges	(7,837,223)	(276,012)
Deferred tax on gain	2,790,161	-
Other comprehensive income, net of tax	260,703	4,980,665
Total comprehensive (loss) income for the financial year	$(70,071,433)	$ 1,087,431

Consolidated Balance Sheet
(all amounts are shown in US$)

	Notes	As at 31 December 2015	2014
Assets			
Non-current assets			
Property, plant and equipment	13	$ 25,428,745	$ 47,129,451
Intangible assets	12	11,891,746	51,392,916
Derivative financial assets	17	502,648	620,000
		37,823,139	99,142,367
Current assets			
Inventory	15	917,039	1,051,192
Derivative financial assets	17	3,997,996	5,240,112
Trade and other receivables	16	3,013,846	3,801,613
Cash and cash equivalents		5,969,485	5,019,527
		13,898,366	15,112,444
Total Assets		$ 51,721,505	$ 114,254,811
Equity and liabilities			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	20	$ 4,007,795	$ 4,001,288
Share premium	20	1,402,644	1,279,014
Foreign exchange translation reserve	21	7,713,305	6,465,810
Special (restricted) reserve	22	29,760,145	29,760,145
Retained (deficit) earnings		(65,650,773)	4,376,618
Share-based payment reserve	23	5,367,376	5,420,455
Equity option on convertible loans	24	6,992,276	3,592,505
Cash flow hedging reserve	25	2,787,038	3,773,830
Total equity		(7,620,194)	58,669,665
Current liabilities			
Trade and other payables	18	5,059,434	10,430,245
Borrowings	19	26,311,365	-
		31,370,799	10,430,245
Non-current liabilities			
Borrowings	19	24,776,368	40,082,974
Provisions and contingent consideration	30	3,194,532	5,071,927
		27,970,900	45,154,901
Total liabilities		59,341,699	55,585,146
Total equity and liabilities		$ 51,721,505	$114,254,811

The financial statements were approved by the Board of Directors on 1 June 2016 and were signed on its behalf by:

Rick McCullough,
Executive Chairman

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015 *(all amounts are shown in US$)*

	Share capital $	Share premium $	Foreign exchange translation reserve $	Special (restricted) reserve $	Retained earnings (deficit) $	Share based payment reserve $	Equity option on convertible loans $	Cash flow hedging reserve $	Total $
Balance at 1 January 2015	4,001,288	1,279,014	6,465,810	29,760,145	4,376,618	5,420,455	3,592,505	3,773,830	58,669,665
For the year ended 31 December 2015									
Loss for the year	-	-	-	-	(70,332,136)				(70,332,136)
Other comprehensive income (expense):									
Foreign exchange gain on consolidation	-	-	1,247,495	-	-	-	-	-	1,247,495
Gain on hedging instruments designated in cash flow hedges	-	-	-	-	-	-	-	6,304,905	6,304,905
Deferred tax on hedging instruments designated in cash flow hedges	-	-	-	-	-	-	-	(2,244,635)	(2,244,635)
Gain reclassified to profit or loss	-	-	-	-	-	-	-	(7,837,223)	(7,837,223)
Deferred tax on gain reclassified to profit	-	-	-	-	-	-	-	2,790,161	2,790,161
Total comprehensive income (loss)	-	-	1,247,495	-	(70,332,136)	-	-	(986,792)	(70,071,433)
Share-based payments	-	-	-	-	-	251,666	-	-	251,666
Issue of share capital for cash	6,507	123,630	-	-	-	-	-	-	130,137
Exercised and expired options and warrants	-	-	-	-	304,745	(304,745)	-	-	-
Issue of convertible loan notes	-	-	-	-	-	-	3,399,771	-	3,399,771
Balance at 31 December 2015	**4,007,795**	**1,402,644**	**7,713,305**	**29,760,145**	**(65,650,773)**	**5,367,376**	**6,992,276**	**2,787,038**	**(7,620,194)**
Balance at 1 January 2014	3,940,516	-	5,258,975	29,760,145	5,454,326	3,101,951	2,480,398	-	49,996,311
For the year ended 31 December 2014									
Loss for the year	-	-	-	-	(3,893,234)	-	-	-	(3,893,234)
Other comprehensive income (expense):									
Foreign exchange gain on consolidation	-	-	1,206,835	-	-	-	-	-	1,206,835
Gain on hedging instruments designated in cash flow hedges	-	-	-	-	-	-	-	6,136,124	6,136,124
Gain reclassified to profit or loss	-	-	-	-	-	-	-	(276,012)	(276,012)
Deferred tax on hedging instruments designated in cash flow hedges								(2,086,282)	(2,086,282)
Total comprehensive income (loss)	-	-	1,206,835	-	(3,893,234)	-	-	3,773,830	1,087,431
Share-based payments	-	-	-	-	-	702,695	-	-	702,695
Issue of share capital for cash	19,404	410,258	-	-	-	-	-	-	429,662
Exercised and expired options and warrants	-	-	-	-	145,660	(145,660)	-	-	-
Extension of convertible loan notes and borrowings	-	-	-	-	2,646,477	1,761,469	1,152,342	-	5,560,288
Conversion of convertible loan notes	41,368	868,756	-	-	23,389	-	(40,235)	-	893,278
Balance at 31 December 2014	4,001,288	1,279,014	6,465,810	29,760,145	4,376,618	5,420,455	3,592,505	3,773,830	58,669,665

Consolidated Cash Flow Statement

(all amounts are shown in US$)

	Notes	For the Year ended 31 December 2015	2014
Net cash flow from operating activities	26	$ 16,663,460	$ 28,224,478
Cash flow from investing activities			
Purchase of intangible assets		(15,197,473)	(27,253,794)
Purchase of property, plant and equipment		(11,251,875)	(15,002,661)
Proceeds on disposal of property, plant and equipment		8,410	1,501,828
Interest received		355	367
Net cash from investing activities		(26,440,583)	(40,754,260)
Cash flow from financing activities			
Proceeds on issue of new shares		130,137	429,662
Proceeds from issue of derivative financial instruments		-	843,639
Payments on derivative financial instruments		-	(509,275)
Repayment of loans		(3,000,000)	(10,000,000)
Proceeds on issue of loans net of issue costs		7,000,000	27,886,400
Proceeds on issue of convertible loan notes		9,710,000	-
Interest paid		(3,102,589)	(2,787,068)
Net cash flow from financing activities		10,737,548	15,863,358
Net increase in cash and cash equivalents		960,425	3,333,576
Cash and cash equivalents at beginning of financial year		5,019,527	1,681,163
Effects of exchange rate changes		(10,467)	4,788
Cash and cash equivalents at end of financial year		$ 5,969,485	$ 5,019,527

Notes to the Consolidated Financial Statements

Year ended 31 December 2015 *(all amounts are shown in US$)*

1. General Information

Nighthawk Energy PLC (the "Parent") is a company incorporated in the United Kingdom, under the Companies Act 2006. The address of the registered office is given on the back cover. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

The accompanying financial statements cover the year to 31 December 2015 for the Parent and its subsidiaries (the "Group" or "Company").

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU Regulations and applied in accordance with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets at the date of transaction. The principal accounting policies adopted are set out below.

The principal accounting policies set out below have been consistently applied to all periods presented.

Certain reclassifications have been made to the 2014 amounts to conform to the 2015 presentation. None of these reclassifications resulted in changes to profit or loss.

Going Concern

The Directors have reviewed cash forecasts, the current operations of the Group and plans for the next 12 months and consider that the use of the going concern basis of accounting and preparation of the financial statements is appropriate but, there are material uncertainties related to events or conditions that may cast significant doubt about the ability of the Group to continue as a going concern. Currently, the Group is meeting its day-to-day financial responsibilities and oil prices are trending upward. Successful implementation of the water flood project is expected to provide adequate cash flow for the foreseeable future to meet operating cash flow requirements, although the COGCC approval of the water flood project is not certain. The Directors note there is a material liquidity risk related to the Company's outstanding loan with Commonwealth Bank of Australia ("CBA") given non-compliance with certain covenants and the reduction in the borrowing base from $23.0 million to $13.0million in Q1 2016 which created a $10.0 million borrowing base deficiency. As of the date of approval of these financial statements, the Company has obtained a waiver from CBA of existing non-conformity to the loan provisions and covenants through to 10 June 2016. As part of the existing waiver, CBA has agreed to temporarily waive the current requirement to pay approximately $6.7 million of amounts due based upon the outstanding borrowing base deficiency of $10.0 million, with the remaining $3.3 million due 28 June 2016. However, the Company's ability to meet its liabilities as they fall due for next 12 months is dependent upon successfully renegotiating the existing loan facility on terms acceptable to the Company or securing alternative funding. The Company and CBA are attempting to renegotiate the existing loan document and current amounts payable and whilst the Directors are confident that the borrowings can be renegotiated or alternative funding secured, the outcomes of these negotiations are unknown.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

2. Significant accounting policies (continued)

Basis of Consolidation
Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Group as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. Intra-Group transactions with subsidiaries are eliminated on consolidation. Transactions, balances, income and expenses with Joint Operations are eliminated to the extent of the Group's interest in these entities.

In accordance with the exemption in IFRS 1, where merger accounting has been used prior to the transition date the accounting method has not been restated.

Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire these shares is accounted for as merger reserve.

Segmental Reporting
The Group has only one operating segment: the production of, exploration for and investment in hydrocarbons in one geographical area, the United States of America.

New and amended IFRS standards in interpretations
No new or revised Standards and Interpretations have been adopted during the year.

At the date of authorisation of these financial statements, the following Standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union) (standards not expected to have any impact on the Group are not included):

	New/Revised International Financial Reporting Standards	Effective Date: Annual periods beginning on or after:	EU adopted
IAS 1	Disclosure Initiative – Amendments	1 January 2016	No
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018	No
IFRS 15	Revenue from Contracts with Customers	1 January 2018	No
IFRS 16	Leases	1 January 2019	No
	Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	Yes

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Joint Operations
The Group participates in Joint Operations, which involve the joint control of assets used in the Group's oil and gas exploration and producing activities.

The Group accounts for its share of assets, liabilities, income and expenditure of Joint Operations in which it holds an interest, classified in the appropriate Balance Sheet and Income Statement headings.

Details of the Group's interests in unincorporated Joint Operations are given in Note 14.

2. Significant accounting policies (continued)

Revenues

Sales revenue represents the sales value of the Group oil liftings in the year. Oil revenue is recognised when it can be reasonable measured and the risks and rewards of ownership have transferred substantially to the buyer, which occurs at transfer of the hydrocarbons from the Group's facilities to the purchaser's tanker or infrastructure. Revenue is measured at the Group's share of fair value of the consideration received or receivable and represents amounts receivable for oil products in the normal course of business, net discounts and sales related taxes. Royalty interests are recognised on an accruals basis, in accordance with the substance of the relevant agreement.

Oil and gas assets – exploration and evaluation assets (intangibles)

The Group follows a successful efforts based accounting policy for oil and gas assets. During the geological and geophysical exploration phase, expenditures are charged against income as incurred. Once the legal right to explore has been acquired, expenditures directly associated with exploration and evaluation are capitalised as intangible assets and are reviewed at each reporting date to confirm that there is no indication of impairment and that drilling is still underway or is planned. If no future exploration or development activity is planned in the licence area, the exploration licence and leasehold property acquisition costs are written off. Pre-licencing expenditures on oil and gas assets are recognised as an expense within the income statement when incurred.

Oil and gas assets – development and production assets (property, plant and equipment)

Once a well or project is commercially feasible and technically viable, which in practice is when results indicate that hydrocarbon reserves exist in adequate quantity and there is reasonable evidence that the reserves are commercially viable, the carrying values of the associated exploration licence and property acquisition costs and the related cost of exploration wells are transferred to development oil and gas properties after an impairment test. Development and production assets are accumulated generally on a well-by-well basis and represent the cost of developing the commercial reserves discovered and bringing them into production. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning. If a drilled well does not show commercially viable reserves, the capitalized costs are written off upon completion of the well.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and recognised impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of these items.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other costs, including repairs and maintenance costs, are charged to the income statement in the period in which they are incurred.

Depreciation is provided on all property, plant and equipment and is calculated on a straight-line basis or unit of production basis as follows:

Plant and equipment	5%
Leasehold land	10%
Office equipment	25%

Depreciation of producing assets

The net book values of producing assets are depreciated on a well-by-well basis using the unit-of-production method by reference to the ratio of production in the year and the related economic commercial reserves of the well, taking into account future development expenditures necessary to bring those reserves into production.

Where property, plant and equipment has been acquired for the purposes of exploration, and technical feasibility of the project has yet to be established, the depreciation on the property, plant and equipment is added back to the cost of the intangible assets within exploration costs.

2. Significant accounting policies (continued)

The gain or loss arising on disposal or scrapping of an asset is determined as the difference between the sales proceeds, net of selling costs, and the carrying amount of the asset and is recognised in the income statement.

Impairment of development and production assets
An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount, but not less frequently than twice a year. The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash flows are discounted using a pre-tax discounted rate adjusted for risks specific to the assets. The cash generating unit applied for impairment test purposes is generally at the well level, except that a number of individual well interests may be grouped as a single cash generating unit where the cash inflows of each well are interdependent, as in a unit. Commercial reserves consist of proved and probable oil, which are defined as the estimated quantities of crude oil where geological, geophysical and engineering data has demonstrated, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be at least a 50% statistical probability that the actual quantity of recoverable reserves will be equal to or more than the amount estimated as proved and probable reserves. Any impairment identified is charged to the income statement. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

Impairment of Exploration costs
The Group's intangible exploration cost assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the exploration cost assets may exceed the assets recoverable amount. In accordance with IFRS 6, the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and appraisal assets may be impaired:

- Whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- Whether substantive expenditure on further exploration for and appraisal of mineral resources in a specific area is neither budgeted nor planned;

- Whether exploration for and evaluation of oil in a specific area has not led to the discovery of commercially viable quantities of oil and the Group has decided to discontinue such activities in the specific area; and

- Whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group, as a next step, performs an impairment test in accordance with the provisions of IAS 36 as set out above.

Asset Retirement Obligation
An asset retirement obligation provision for plugging, abandonment and reclamation costs has been included within the exploration costs intangible assets and production assets and within liabilities based on management's assessment of asset retirement costs that will be incurred at the end of each project's life. The estimated current date cash flows are adjusted for inflation and are discounted at a risk free rate. The cash flows used in the provision are risk adjusted.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2. Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Cost comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent consideration

The Group is party to a deferred contingent consideration agreement in respect of its acquisition of an addition 25% working interest in the Jolly Ranch and Smoky Hill Project in 2012, under which the Group acquired operatorship of the joint operation and increased its interest from 50% to 75%. The Group initially recorded the fair value of the deferred contingent consideration as part of the acquisition and the obligation is classified as a provision and subsequently carried at the best estimate of the payment that will be required to settle the obligation. Subsequent changes in fair value are recorded in profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the lease.

Foreign Currency

For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the reporting currency for the consolidated financial statements. The functional currency of the Group's subsidiaries is United States dollars. Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited to the Income Statement.

The Parent Company's functional currency is the British Pound Sterling. On consolidation, the assets and liabilities of the Parent Company are translated into the Group's reporting currency at the exchange rate at the balance sheet date and the income and expenditure account items are translated at the average rate for the reporting period. The exchange difference arising on the translation from functional currency to presentational currency of the Parent Company is classified as other comprehensive income and is accumulated within equity as a translation reserve.

Taxation

Current Taxation

Current tax for each taxable entity in the Group is based on the statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to taxes payable or recoverable in respect of previous periods.

2. Significant accounting policies (continued)

Taxes that arise from production are recorded as cost of sales and accrue as production arises. A deferred tax asset is recorded when there is sufficient certainty that production taxes paid will give rise to tax deductions in future periods.

Deferred Taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Financial Instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Borrowings are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method. If the terms of borrowings are modified, the Group determines whether the modification represents a substantial modification under IFRS. A modification is considered substantial if the discounted present value of the cash flows under the new terms, including any fees paid, net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Borrowings that are considered to be substantially modified are derecognised and transaction costs associated with such loan modifications, are written off to the income statement. Transaction costs arising from modifications of borrowings that do not qualify as substantially modified are deducted from the liability and amortised prospectively through the effective interest rate method.

Royalty or profit share interests issued with loans are recorded at fair value through profit or loss, unless the royalty terminates upon disposal of the wells or a change in control, when such events form part of the Group's strategy. In such circumstances the royalty is recorded on an accrual basis as production arises.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2. Significant accounting policies (continued)

Compound instruments

The component parts of compound instruments (convertible notes and loans with detachable warrants) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is subsequently recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option or detachable warrant classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the compound instruments are allocated to the liability and equity components in proportion to the fair value of the debt and equity components. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the compound instruments using the effective interest method.

If the terms of a compound financial instrument are modified the Group determines whether the modification represents a substantial modification under IFRS. A modification is considered substantial if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial instrument. Compound financial instruments that are considered to be substantially modified are derecognised and transaction costs incurred as part of the loan modifications are recorded to the income statement and equity accounts in proportion to the relative fair values of the debt and equity component at extinguishment. If the transaction costs can be specifically attributed to the new instrument, the portion attributable to the debt component is amortised prospectively through the effective interest rate.

Incremental fair value changes arising from the modification of warrants originally issued as part the compound financial instrument are considered to represent transaction costs and are determined using the Black-Scholes valuation model.

Derivative financial instruments

The Group enters into derivative financial instruments in the form of oil price swaps and costless collars to manage its exposure to oil price risk. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. Fair value is determined inclusive of adjustments for the Group's own credit risk and the credit risk of counterparty to the derivative. The resulting gain or loss is recognised in profit or loss immediately, unless the instrument has been designated as a hedging instrument.

Hedge accounting

The Group designates certain hedging instruments, which are derivatives, in respect of commodity price risk, as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. The Group enters into such derivatives to manage the risk associated with oil price fluctuations and therefore the impact of credit risk adjustments are excluded from the hedging relationship. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting cash flows of the hedged item attributable to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in a cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. The portion of the change in fair value of the derivative attributable to credit risk adjustments is recognised immediately in profit and loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged volumes affects profit or loss, and recorded in the same line as the recognised hedge item.

2. Significant accounting policies (continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Finance expenses
Interest is recognised using the effective interest method which calculates the amortised cost of a financial liability and allocates the interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments, through the expected life of the financial liability to the net carrying amount of the financial liability.

Share-Based Payments
Equity settled share-based payments are measured at the fair value of the equity instruments at the date of grant. The fair value includes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity settled share-based transactions are set out in Note 23.

The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of the equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Where an equity-settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the Income Statement.

Warrants
Share warrants have been issued in lieu of interest on certain convertible loans in the prior years; as such the associated cost of these is accounted for as a finance cost.

The fair value of the warrants is measured at the grant date. The Black Scholes valuation model is used to assess the fair value, taking into account the terms and conditions attached to the warrants. The finance costs recorded are measured by reference to the fair value of warrants.

Share warrants are recognised as an increase in equity immediately on issue as warrants vest immediately. The expense associated with the share warrants is recognised in accordance with the substance of the transaction, either as an immediate expense in the income statement or as a transaction cost associated with the issue or extension of loan notes.

Employment Benefits
Provision is made in the financial statements for all employee benefits. Liabilities for wages and salaries, including non-monetary benefit and annual leave obliged to be settled within 12 months of the balance sheet date, are recognised as accrued liabilities.

The Group's contributions to defined contribution pension plans are charged to the income statements in the period to which the contributions relate.

3. Critical accounting judgements and estimates

In the application of the Group's accounting policies, which are described in Note 2, the Directors and management are required to make critical accounting judgments and assumptions. The assumptions are based on historical experience and other factors that are considered to be relevant.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies, and that have the most significant effect on the amounts recognised in the financial statements.

Exploration and Evaluation Costs

The Group's accounting policy leads to the capitalisation of tangible (Note 13) and intangible (Note 12) fixed assets, where it is considered likely that the amount capitalized will be recoverable by future exploitation, sale or, alternatively, where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This requires management to make estimates and assumptions as to the future events and circumstances, especially in relation to whether an economically viable extraction operation can be established. Such estimates are subject to change and following initial capitalisation, should it become apparent that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the Income Statement.

Judgment is further required in determining the date at which exploration assets achieve commercial production and commence depreciation. In forming that assessment, the Group considers factors such as the availability of economically recoverable reserves and the production rates delivered by wells.

Carrying value of exploration, development and producing properties

Management reviews intangible exploration cost assets (Note 12) for indicators of impairment under IFRS 6 at the end of each reporting period. This review of assets for potential indicators of impairment requires judgment including whether renewal of licences is planned, interpretation of the results of exploration activity and the extent to which the Group plans to continue substantive expenditure on the assets. In determining whether substantive expenditure remains in the Group's plan, management considers factors including future oil prices, plans to develop or renew leases and future drilling plans. If impairment indicators exist the assets are tested for impairment and carried at the lower of the estimated recoverable amount and net book value.

The carrying value of development and producing oil and gas assets (Note 13) is subject to judgement as to their recoverable value. The calculation of recoverable value requires estimates of future cash flows within complex value-in-use models. At each balance sheet date the Directors review the carrying amounts of the Group's development and producing properties to determine whether there is any indication that those assets have suffered an impairment loss.

For development and producing oil and gas properties, the following are examples of the indicators used:

- A significant and unexpected decline in the asset's market value or likely future revenue;
- A significant change in the asset's reserves assessment;
- Significant changes in the technological, market, economic or legal environments for the asset; or
- Evidence is available to indicate obsolescence or physical damage of an asset, or that it is underperforming expectations.

The assessment of impairment indicators requires the exercise of judgement. If an impairment indicator exists, then the recoverable amounts of the cash-generating units and/or individual assets are determined based on the higher of value-in-use and fair values less costs of disposal calculations. These require the use of estimates and assumptions, such as: future oil prices, life of field/well, discount rates, operating costs, future capital requirements, exploration potential, recompletion potential, oil reserves and operating performance.

3. Critical accounting judgements and estimates (continued)

The key estimates were as follows:

- Oil prices - determined based on the market WTI forward curve as at year end, together with a discount to reflect the terms of sales contracts.
- Oil reserve quantities - determined based on estimated economically recoverable reserves, including recompletion wells, based on external and internal competent person assessments.
- Production Costs—costs incurred to produce oil
- Transportation costs
- Discount rate – pre-tax discount rate specific to the risks associated with the assets determined at 12%.
- Capital development costs

In addition, wells which have been plugged and abandoned during the year, or wells for which a decision has been taken during the year to plug and abandon the well, have been impaired.

These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or Cash Generating Units (CGUs).

The Group has recorded an impairment of $75.1 million in 2015 as compared to $20.3 million in 2014, in respect of exploration costs and property, plant and equipment as detailed in Note 9. A 10% decrease in realised oil prices would increase the impairment by $0.4 million. An increase in the discount rate to 15% would increase impairment by $0.1 million. Whilst sensitive to these inputs, the Directors consider the inputs used to be appropriate best estimates.

Reserve Estimates
Reserves are estimates of the amount of oil that can be economically and legally extracted from the Group's properties. In order to calculate the reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including those detailed above.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Given that economic assumptions used to estimate reserves may change from year to year, and because additional geological data is generated during the course of operations, estimates of reserves may change from year to year.

Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values, detailed in Notes 12 and 13, may be affected by possible impairment due to adverse changes in estimated future cash flows and the commercial viability of reserves.
- Depreciation, depletion and amortisation (detailed in Note 5) that is charged in the Income Statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Provisions for plug and abandonment of wells may change as a result of changes in the timing of such plugging and abandonment.

Judgments associated with debt finance
During the year, the Group obtained a new loan as detailed in Note 19. The accounting required judgments and estimates are set out in that note but included the valuation of conversion rights associated with the debt.

3. Critical accounting judgements and estimates (continued)

Estimation of contingent consideration

The estimation of a value attributable to the contingent consideration, that forms part of the acquisition of additional working interest completed in January 2012, is a key source of estimation uncertainty.

Management has considered the key calculation inputs and scenarios and has used their best judgment of risk-weighted possible outcomes to estimate the value included in these financial statements. These factors included consideration of the probability of the consideration becoming due, the expected value of any such payment under the terms of the agreements, and the current existing lease prices.

The estimated value as per the acquisition agreement for this contingent consideration is $333,500. Refer to Note 30 for details.

Derivative valuations

The Group's oil swaps and costless collars are carried at fair value. The fair value is determined based on mark-to-market valuations provided by third parties, which in turn is dependent on estimates regarding risk free discount rates and oil prices. Additionally, when material, the mark-to-market valuations are adjusted for credit risk associated with the Group and counterparty which are determined based on credit spreads applicable to the Group and the counterparty. Refer to Note 17 for details.

4. Revenue

An analysis of the Group's revenue is as follows:

	2015	2014
Continuing operations		
Sales revenue	$ 21,729,188	$ 47,265,682
Gains on hedging instruments reclassified from equity to profit or loss	7,837,223	276,012
Other income	42,504	280
	$ 29,608,915	$ 47,541,974

5. Operating (loss) / profit

The operating (loss)/profit before taxation for the years has been arrived at after charging:

	2015	2014
Depreciation	$ 6,711,917	$ 5,355,128
Amortisation and contribution to match test revenue	$ 573,220	$ 1,747,882
Equity settled share-based payments	$ 251,666	$ 702,695
Production profit share expense	$ 321,030	$1,296,901

6. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2015	2014
Fees payable to the Company's auditors for the audit of the annual financial statements	$ 132,140	$ 139, 825
Fees payable to the Company's auditor and their associates for other services to the Group:		
Tax legislative assistance	21,890	21,385
Tax compliance	-	17,272
Tax advice and other advisory	10,607	24,181
	$ 164,637	$ 202,663

7. Staff Costs

The aggregate payroll costs of the employees, including both management and executive Directors, were as follows:

	2015	2014
Staff costs		
Wages and salaries	$ 4,063,190	$ 3,390,139
Social security costs	189,819	209,578
Pension costs	383,507	110,216
	4,636,516	3,709,933
Equity settled share-based payments	251,666	702,695
	$ 4,888,182	$ 4,412,628

Average number of persons employed by the Group during the year was as follows:

	2015	2014
United Kingdom	2	3
United States	14	15
	16	18

	2015	2014
Remuneration of Directors		
Emoluments for qualifying services	$ 1,134,682	$ 996,830
Company pension contributions and benefits	93,562	93,656
Social security costs	51,277	90,909
	$ 1,279,521	$ 1,181,395

The number of Directors during 2015 and 2014, accruing benefits under money purchase pension scheme arrangements was two.

During the year Steve Gutteridge, who retired from the Board of Directors on 30 September 2014, exercised share options to acquire 1,700,000 ordinary shares. During 2014, 1,100,000 were exercised by Chuck Wilson, COO and Director.

7. Staff Costs (continued)

Details of each director's remuneration and share options granted are included in the Remuneration Report.

	2015	2014
Highest paid director		
Remuneration	$ 369,600	$ 344,800
Company pension contributions and benefits	48,019	36,691
	$ 417,619	$ 381,491

The gain during the financial year on exercised options for the highest paid director was $nil.

8. Finance Costs

	2015	2014
Interest on shareholder loans	$ -	$ 1,160,571
Imputed interest on convertible loan notes	1,571,189	1,468,492
Interest on shareholder loan issued with warrants	1,584,916	1,551,710
Interest on bank loan	1,508,528	302,348
Loss on rescheduling of loans	-	332,787
Losses on derivative financial instruments not designated as hedging instruments	-	192,489
Exchange losses on financial liabilities	384,928	636,920
Other	28,881	268,742
	$ 5,078,442	$ 5,914,059

Finance costs include certain non-cash transactions in respect of effective interest rate charges and losses on loan rescheduling.

9. Exceptional administrative expenses

	2015	2014
Exceptional Administrative Expenses:		
Impairment of exploration and production assets	$ 75,144,103	$ 20,306,352
Release of contingent consideration provision	(2,666,500)	-
	$ 72,477,603	$ 20,306,352

During the year, the Group drilled five wells that did not result in commercial economic reserves. As a result, the costs to drill and complete these wells were written off as of 31 December 2015 and totalled $5.2 million. In addition, an impairment charge of $28.9 million has been taken to the income statement and represents an impairment of certain wells which mainly arises due to the reduction in the spot and forward oil price assumptions used in estimating the future discounted cash flows for each well. The Group assessed the recoverability of its undeveloped assets based upon factors such as market conditions, current spot and forward prices of oil, and future exploration and development plans. Due primarily to the significant reduction in oil prices, and with no plans to pursue an aggressive drilling program, $40.5 million was written off or impaired as at 31 December 2015. Of the total impairment of $75.1 million, $38.5 million was attributable to exploration costs included in intangible assets, and $11.5 million, $10.2 million and $14.4 million were attributable to leasehold land, plant and equipment and production assets, respectively, or a total of $36.1 million included in property, plant and equipment. An additional $0.5 million was recorded as impairments for costs incurred during the current period for wells which had been fully impaired in prior periods.

9. Exceptional administrative expenses (continued)

During 2014, the Group plugged and abandoned a total of seven wells. The associated assets were fully impaired as at 31 December 2014 resulting in an exceptional charge to the income statement of $6.7 million. An additional impairment charge of $13.6 million was also taken to the income statement at 31 December 2014, of which $12.7 million represented a partial impairment of certain wells which arose primarily due to the reduction in the spot and forward oil price assumptions used in estimating the future discounted cash flows for each well. The balance of $0.9 million related to the full impairment of legacy field infrastructure deemed to have no value.

During the year, the Group released $2.7 million of the contingent consideration provision. Refer to Note 30.

10. Taxation

The Parent Company is subject to taxation in the United Kingdom at an estimated rate 20.25% for 2015 and 21.5% in 2014, and the Group's subsidiaries are subject to taxation in the United States at an estimated rate of 38.00% for 2015 and 2014.

As of 31 December 2015, there was a current tax credit of $394,858 arising in the US in the financial year. At 31 December 2014, the group recorded a $230,445 charge. No tax charge arose in the UK for either 2015 or 2014.

The reasons for the differences between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits / (losses) for the year are as follows:

Reconciliation of the effective tax charge:	2015	2014
Loss before taxation	$ (70,181,468)	$ (5,749,071)
Current tax (credit) expense:		
Loss before taxation multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	$ (14,242,255)	$ (1,236,050)
Tax effects of:		
Other expenses not deductible for tax purposes	55,310	1,135,766
Different tax rates applied in overseas jurisdictions	(8,959,430)	330,729
Effect of tax rate change	404,959	-
Unrecognised tax losses	22,346,558	-
	(394,858)	230,445
Deferred tax expense (credit):		
Tax losses recognised (utilised) during the year	545,526	(2,086,282)
Tax in income statement and effective tax rate	$ 150,668	$ (1,855,837)
Amounts recorded in other comprehensive income (loss):		
Deferred tax on hedging instruments designated in cash flow hedges	$ 2,244,635	$ 2,086,282
Deferred tax on gain reclassified to income statement for cash flow hedging instruments	(2,790,161)	-
Total	$ (545,526)	$ 2,086,282

The main UK Corporation tax rate from 1 April 2014 of 21% was reduced to 20% from 1 April 2015, resulting in an effective corporation tax rate of 20.25% for the year. A number of changes to the UK Corporation tax system were announced in March 2012 Budget Statement. The Finance Act 2013 which was substantially enacted on 2 July 2013 includes legislation reducing the main rate of corporation tax from 24% to 23% from 1 April 2013 and further reducing the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015.

10. Taxation (continued)

	2015	2014
Deferred tax		
Deferred tax liabilities:		
Accelerated tax deductions	$ -	$ (9,298,946)
Fair value of derivatives	(1,540,756)	(2,086,282)
Deferred tax assets:		
Capital allowances	1,062,144	-
Intercompany interest	478,612	-
Losses (generated) recognised	-	11,385,228
Net deferred tax	$ -	$ -

No deferred tax asset has been recognised at 31 December 2015 and 2014, for the net operating loss carry forwards of $163.6 million and $94.6 million, respectively, which are available under US tax statutes, due to uncertainty over the timing of future profits as well as the fact that the Group's ability to utilise some of these tax losses is restricted under Section 382 of the Internal Revenue Code to an amount of $0.4 million per annum. The unrecognized taxable losses in the U.S. can be carried forward for U.S. Federal and Colorado State income tax purposes for up to 20 years. These losses, if not utilized, will expire in the years 2026 through 2033.

A deferred tax asset in respect of $ 20,417,083 at 31 December 2015 and $15,502,898 at 31 December 2014 of taxable losses available in the UK has not been recognised due to the uncertainty over timing of future profits. The taxable losses available in the UK can be carried forward indefinitely.

11. Loss Per Share

Loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2015	2014
Basic loss per share		
Loss per share from continuing operations	$ (0.07)	$ (0.00)
Diluted loss per share		
Loss per share from continuing operations	$ (0.07)	$(0.00)

The Group has 652,383,333 potentially dilutive shares in issue, in respect of options to acquire 45,350,000 shares of the Group, warrants to acquire 130,000,000 shares of the Group and conversion rights to acquire 477,033,333 shares of the Group. Due to the Group's reported losses share options and warrants were not taken into account when determining the weighted average number of ordinary shares in issue during the year as the options and warrants were anti-dilutive. Subsequent to the balance sheet date, no shares were issued.

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted net loss per share are as follows:

	2015	2014
Net loss used in the calculation of total basic and diluted loss per share from continuing operations	$ (70,332,136)	$ (3,893,234)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic net loss per share	963,629,481	955,925,404
Dilutive effect of options, conversion shares and warrants	-	-
Weighted average number of ordinary shares for the purposes of diluted net loss per share	963,629,481	955,925,404

12. Intangible Assets

	Exploration costs	Royalty interests	Total
Cost			
At 31 December 2013	$ 87,615,957	$ 359,391	$ 87,975,348
Additions	33,284,025	-	33,284,025
Transfers (note 13)	(14,574,709)	-	(14,574,709)
At 31 December 2014	106,325,273	359,391	106,684,664
Additions	17,008,354	-	17,008,354
Transfers (note 13)	(17,409,792)	-	(17,409,792)
At 31 December 2015	$ 105,923,835	$ 359,391	$106,283,226
Amortisation and impairment			
At 31 December 2013	$ 40,310,734	$ 32,463	$ 40,343,197
Charge	-	4,036	4,036
Contribution to match revenue	1,743,846	-	1,743,846
Impairment	13,200,669	-	13,200,669
At 31 December 2014	55,255,249	36,499	55,291,748
Charge	-	3,700	3,700
Contribution to match revenue	569,521	-	569,521
Impairment	38,526,511	-	38,526,511
At 31 December 2015	$ 94,351,281	$ 40,199	$ 94,391,480
Net book value			
At 31 December 2015	$ 11,572,554	$ 319,192	$ 11,891,746
At 31 December 2014	$ 51,070,024	$ 322,892	$ 51,392,916
At 31 December 2013	$ 47,305,223	$ 326,928	$ 47,632,151

Management reviews each exploration project for indication of impairment at each balance sheet date based on IFRS 6 criteria. Indicators of impairment were considered which included leases being allowed to expire, decisions to abandon certain wells and the estimated fair value less cost to sell of the underlying assets.

Due to these indicators being present at 1 December 2015, and the resultant impairment test, impairments have been recorded during the current financial period. Consequentially, certain full and partial impairments, as appropriate, of the remaining values have been recognised, as disclosed in Note 9.

13. Property, Plant and Equipment

	Leasehold Land	Plant and equipment	Office equipment	Production assets	Total
Cost					
At 31 December 2013	$ 41,373,682	$13,728,738	$ 122,961	$13,149,336	$68,374,717
Additions	4,622,904	10,914,161	77,203	664,603	16,278,871
Transfers (note 12)	-	-	-	14,574,709	14,574,709
Disposals	(1,422,101)	-	(1,089)	-	(1,423,190)
Foreign exchange variance	-	-	(401)	-	(401)
At 31 December 2014	44,574,485	24,642,899	198,674	28,388,648	97,804,706
Additions	4,961,565	3,991,321	48,188	-	9,001,074
Transfers (note 12)	-	-	-	17,409,792	17,409,792
Disposals	(4,173,339)	(1,766,763)	(4,801)	-	(5,994,903)
Foreign exchange variance	-	-	(257)	-	(257)
At 31 December 2015	$ 45,362,711	$26,867,457	$ 241,804	$45,798,440	$118,270,412
Accumulated Depreciation					
At 31 December 2013	$ 24,981,283	$ 3,337,421	$ 38,983	$ 4,854,354	$ 33,212,041
Charge	4,246,917	862,103	35,952	4,908,603	10,053,576
Impairment	251,545	776,035	-	6,382,603	7,410,183
Disposals	-	-	(250)	-	(250)
Foreign exchange variance	-	-	(295)	-	(295)
At 31 December 2014	29,479,745	4,975,559	74,390	16,145,560	50,675,254
Charge	4,803,356	1,395,378	29,199	5,776,885	12,004,818
Impairment	11,487,855	10,212,595	-	14,407,087	36,107,537
Disposals	(4,173,339)	(1,766,763)	(4,330)	-	(5,944,432)
Foreign exchange variance	-	-	(1,510)	-	(1,510)
At 31 December 2015	$ 41,597,617	$14,816,769	$ 97,749	$36,329,532	$92,841,667
Net book value					
At 31 December 2015	$ 3,765,094	$12,050,688	$144,055	$ 9,468,908	$ 25,428,745
At 31 December 2014	$15,094,740	$19,667,340	$124,284	$12,243,087	$ 47,129,451
At 31 December 2013	$16,392,399	$10,391,317	$83,978	$ 8,294,982	$ 35,162,676

Impairments during the current financial relate to 1) the decision taken to plug and abandon certain wells and 2) a reduction in the net present value of the producing assets of the Group due primarily to the decline in oil prices used to estimate the value of wells. Consequentially, certain impairments have been recognised, as disclosed in Note 9. The Group determines the recoverable amount for individual assets on a well by well basis. An additional $0.5 million was recorded as impairments for costs incurred during the current period for wells which had been fully impaired in prior periods and is not reflected in the above table.

For the year ended 31 December 2015, depreciation charges of $5,292,915 have been capitalised within intangible assets. For the year ended 31 December 2014, depreciation charges of $4,698,448 were capitalized within intangible assets.

14. Investment in Jointly Controlled Operations

On 29 October 2013, the Group entered into a farm out agreement with an undisclosed party, covering 4,572 net mineral acres within the Jolly Ranch Project. The farmee agreed to drill on a 100% cost basis three Pennsylvanian wells to earn a 50% working interest (40% net revenue interest). The farmee drilled one unsuccessful well and the agreement expired on 30 September 2014.

On 29 January 2015, the Group entered into two joint development agreements ("JDAs") with Cascade Petroleum LLC ("Cascade"). The first JDA, the Monarch Joint Development operated by the Group, covers 23,619 net mineral acres southwest from the Arikaree Creek field and Snow King Project. To earn its 50% working interest in the underlying acreage, the Group bore 100% of the $3.4 million in costs to drill four wells prior to 31 December 2015, three of which were dry holes, and one of which was completed, produces a minimal amount of crude oil and was deemed uneconomic. All of the costs to drill the four wells have been impaired at 31 December 2015. In addition, the Group must bear 100% of the costs to drill two additional wells on or before 30 June 2016, with estimated dry hole costs of $1.2 million per well, and completed well costs of $0.6 million per well. Failure to drill the two additional wells would result in a payment of $1.8 million to the JDA partner. Refer to Note 29.

The second JDA, the El Dorado Joint Development operated by Cascade, covers 40,372 net mineral acres on both sides of the acreage covered by the Monarch Joint Development. As the owner of a 15% working interest, the Group has the right, but is not obligated, to participate in the drilling of any well in the area of mutual interest.

During 2015, a 3D seismic program over the entire area was completed, covering by both the Monarch and El Dorado Joint Development acreage. By the terms of the JDA, the Group bore 100% of the $2.3 million cost of the seismic in exchange for a proportional percentage ownership in the data within the Monarch Joint Development area. This cost is included in Intangible Assets.

15. Inventory

	2015	2014
Oil in tanks	$ 172,071	$ 199,378
Spares, consumables and equipment	744,968	851,814
	$ 917,039	$ 1,051,192

Inventory includes oil held in tanks at year end and casing, tubing and equipment to be used in existing and future wells. The inventories are held at the lower of cost or net realisable value.

16. Trade and Other Receivables

	2015	2014
Trade receivables	$ 1,122,195	$ 2,818,988
Commodity derivative settlements from financial institutions	797,256	276,012
Other receivables	346,892	153,646
Prepayments	526,503	552,967
Income tax receivable	221,000	-
	$ 3,013,846	$ 3,801,613

The Directors consider the carrying value of trade and other receivables are approximate to their fair value.

17. Derivative Financial Assets

	2015	2014
Derivatives designated and effective as hedging instruments		
—Oil price swaps and costless collars	$ 4,327,794	$ 5,860,112
Derivatives that are not designated in hedge accounting		
— Oil price swaps	172,850	-
Total	$ 4,500,644	$ 5,860,112
Current	$ 3,997,996	$ 5,240,112
Non-current	502,648	620,000
Total	$ 4,500,644	$ 5,860,112

18. Trade and Other Payables

	2015	2014
Trade payables	$ 916,903	$ 5,930,641
Royalty payables	62,130	131,648
Accruals	4,080,401	4,367,956
	$ 5,059,434	$ 10,430,245

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amounts of trade and other payables are approximate to their fair values.

19. Borrowings

The following table sets out the carrying values of the loans and borrowings:

Loan	A	B	C	D	E	F	G	Total
Date of issue	May 2013	January 2012	June 2013	July 2013	January 2014	September 2014	August 2015	
Effective interest rate	15%	12%	12%	12%		5%	12%	
Borrowings at 31 December 2013	$ 5,094,521	$7,592,606	$5,924,999	$9,099,596	$ -	$-	$ -	$ 27,711,722
Foreign exchange variance	-	(253,472)	(288,004)	(16,438)	-	-	-	(557,914)
Issue of loans	-	-	-	-	1,032,491	18,886,401	-	19,918,892
Additional loan drawdown	-	-	-	4,500,000	-	3,000,000	-	7,500,000
Interest charge to September 2014	552,299	675,145	470,268	1,143,646	608,272	-	-	3,449,630
Interest paid to September 2014	(646,820)	-	(404,642)	(1,243,242)	(140,763)	-	-	(2,435,467)
Loan notes converted	-	-	(878,523)	-	-	-	-	(878,523)
Repayment of loan capital	(5,000,000)	-	-	(3,500,000)	(1,500,000)	-	-	(10,000,000)
Loan de-recognised on rescheduling at September 2014	-	(8,160,214)	(5,008,290)	(9,967,124)	-	-	-	(23,135,628)
New financial liability recognised on rescheduling at September 2014	-	3,772,285	4,653,440	9,510,780	-	-	-	17,936,505
Interest charge to 31 December 2014	-	176,156	136,775	408,065	-	302,348	-	1,023,344
Interest paid to 31 December 2014	-	-	(117,022)	(143,836)	-	(188,729)	-	(449,587)
Borrowings at 31 December 2014	-	3,802,506	4,489,001	9,791,447	-	22,000,020	-	40,082,974
Foreign exchange variance	-	(227,411)	(264,450)	(16,350)	-	-	(359,303)	(867,514)
Issue of loans	-	-	-	-	-	-	6,310 ,229	6,310,229
Additional loan drawdown	-	-	-	-	-	7,000,000	-	7,000,000
Repayment of loan capital	-	-	-	-	-	(3,000,000)	-	(3,000,000)
Interest expense	-	723,393	506,934	1,584,916	-	1,508,528	340,862	4,664,633
Interest paid	-	-	(405,406)	(1,500,000)	-	(1,197,183)	-	(3,102,589)
Borrowings at 31 December 2015	$ -	$ 4,298,488	$4,326,079	$9,860,013	$ -	$26,311,365	$6,291,788	$ 51,087,733

19. Borrowings (continued)

Except for loan F, as at 31 December 2015, all loan maturities are greater than one year and the loans are classified as non-current in the Consolidated Balance Sheet.

At 31 December 2015, the loans and borrowings include $2,360,431 of unamortised transaction costs held as a reduction in the carrying value of the loans and borrowings. At 31 December 2014, $2,875,068 of unamortised transaction costs held as a reduction in the carrying value of the loans and borrowings. This includes transaction costs on rescheduled loans that did not qualify as significant modifications, as well as transaction costs on significant modifications when such costs were considered wholly attributable to the new loans.

Summary of borrowing arrangements

A. Shareholder loan issued May 2013 at 15% per annum (p.a.) interest and a 10% production profit share on two wells (production profit being the Group's net revenue interest less associated operating expenses for the wells). The loan was repaid in full in September 2014. The production profit share survives until the Company is sold or the Group sells the wells which are the subject of the production profit share.

B. The Company issued $15,604,889 (£10,000,000) nominal of unsecured convertible loan notes, zero coupon over a three year term on 23 January 2012. The loan notes are convertible by holders at any time into such number of ordinary shares as is calculated by dividing the nominal value of notes to be converted by 2.5 pence per share at any time up to and including the redemption date. Additionally, 100,000,000 share warrants were issued to holders of these convertible loan notes. This debt was originally repayable on demand after three years (if not previously converted), hence its fair value on initial recognition was the US$ equivalent of £10m discounted originally from three years. In September 2014, the Company and the holders of the remaining carrying value of $8,160,214 (£5,019,724) nominal agreed to extend the redemption and final conversion date out to March 2019. As at 31 December 2015, the loan is convertible into 206,700,000 shares of the Group.

The 2014 extension was considered to represent a substantial modification of the convertible loan notes. The existing liability portion of the loan notes was derecognised and the equity option on the loan notes was transferred to retained earnings (deficit). The revised convertible loan notes was recognised with the liability component determined based on the future cash flows discounted at 12%, which was determined to be a market rate for equivalent debt without conversion options. The difference between the loan notes principal and the fair value of the liability component was recorded in the equity option on the convertible loan note reserve. The incremental fair value associated with extending the warrants is considered to represent a transaction cost for new convertible loan notes and the portion attributable to the liability is deducted from the liability account and amortised over the remaining term through the effective interest rate. The incremental fair value of the warrant was determined using a Black-Scholes model and required estimation in terms of the model inputs, including volatility rates.

C. The Company issued $5.8 million (£3.8 million) nominal of unsecured convertible loan notes at 9% p.a. interest originally over a two year term on 3 June 2013.

The loan notes are convertible into ordinary shares at 5.5 pence per share originally at any time up to and including the second anniversary of issue. In September 2014, the Company and the holders of the remaining unconverted carrying value of $5,008,290 million (£3,080,830) nominal agreed to extend the redemption and final conversion date out to March 2019. At 31 December 2015, the loan is convertible into 57,000,000 shares of the Group.

The extension was considered to represent a substantial modification of the convertible loan note and was accounted for in line with Loan B above, excluding the warrant extension which was not applicable to this loan note.

D. Shareholder loan issued July 2013 for $12,000,000 (£7,728,799) at 9% p.a. interest, with 30,000,000 embedded detachable warrants (included within the loan agreement in lieu of arrangement fees).

19. Borrowings (continued)

The terms of the loan were subsequently varied as follows:

i) In November 2013, the terms of the loan were varied such that the remaining balance of $9 million would be repaid in three repayments of $3 million on or before 30 April 2014, 31 July 2014 and 31 October 2014.

Additionally, in consideration for the revised repayment profile, the lender was granted a royalty payment equalling to 1% of the Group's net revenue interest in six new well bores being or to be drilled commencing with the Big Sky 12-11 well, which survives until the Company is sold or the Group sells the wells the subject of the royalty payment.

ii) In April and May 2014, the terms of the loan were further varied such that an additional amount totalling $4.5 million was made available and drawn with the entire loan to be repaid in three instalments by 31 January 2015. The coupon was increased from 9% to 15% p.a.

iii) In September 2014, $3,500,000 of the loan principal was repaid. The balance of $9,967,124 carrying value principal was extended at 15% p.a. interest with a bullet repayment in March 2019, which can be repaid earlier at the Company's sole election without penalty. The warrants attached to the loan were also extended to March 2019.

The extension and modification of the coupon in April and May 2014 was considered to represent a substantial modification and the loan was derecognised and unamortised transaction costs expensed. The subsequent extension was not considered to represent a significant modification. The incremental fair value associated with extending the warrants is considered to represent a transaction cost and is amortised over the remaining term through the effective interest rate. The incremental fair value of the warrant was determined using the Black-Scholes model and required estimation in terms of the model inputs, including volatility rates.

E. A loan issued January 2014 at 9% p.a. interest with a royalty payment equalling to 3% of the Group's net revenue interest in two specific well bores for the life of the wells. The loan was repaid in full in September 2014. The royalty payment is recorded at fair value through profit and loss and its fair value is principally a function of future production estimates, oil price estimates, operating cost estimates, discount rates and decline rates. The fair value as at 31 December 2015 is $62,130. At 31 December 2014, the fair value was $131,648.

F. On 26 September 2014 the Group entered into a $100 million senior secured credit facility ("Facility') with Commonwealth Bank of Australia ("Bank"). The Facility contains both a four year Revolving Credit Facility and a Letter of Credit Facility. Interest is charged on monies drawn down at a margin of up to 4.0% over US Libor and a margin of 0.5% is charged on undrawn amounts within the borrowing base. The amounts available to be drawn under the borrowing base at 31 December 2015 was $27.0 million as compared to $30.0 million at 31 December 2014. Transaction costs of $1.1 million were deducted from the carrying value of the loan and are amortised through the effective interest rate. As of 31 December 2015, the Group was not in compliance with certain of the loans covenants and provisions. The Group has obtained a covenant waiver at year end with a grace period to 9 January 2016 and has subsequently obtained further waivers through 10 June 2016. Due to the limited nature of the waivers, the Facility has been recorded as a currently liability on the accompanying financial statements. Management is confident that a mutually beneficial agreement can be reached with CBA on the RBL. See additional discussion at Note 36.

G. On 14 August 2015, the Company issued $10,000,000 (£6,400,000) nominal of unsecured convertible loan notes carrying zero coupon over a period up to March 2019. The loan notes are convertible by holders at any time into such number of ordinary shares as is calculated by dividing the nominal value of notes to be converted by 3 pence at any time up to and including the redemption date. The liability was recorded at fair value, based on the present value of the debt cash flows discounted at 12% with the residual of the proceeds recorded in equity. As a result,

19. Borrowings (continued)

$3,399,771 of the fair value was assigned to the equity component of this loan. Gross proceeds were reduced by $290,000 of transaction costs which are shown net in the issue of loans amount. As at 31 December 2015, the loan is convertible into 213,333,333 shares of the Group.

The rescheduling of the convertible loan notes and borrowings in 2014 gave rise to an increase in the share based payment reserve of $1.76 million for the extension of warrants, and a $1.15 million increase in equity option on convertible loans being the net effect of the fair value of the revised equity option and reductions for transfers of the previous $2.6 million reserve to retained earnings (deficit).

Notes A, B, C, D and G include holdings by related parties. See Note 32 for discussion.

20. Share Capital and Premium

Presented below is the transactions which occurred during the year relating to the Groups ordinary shares of 0.25 pence per share. Shares are allotted, issued and fully paid.

Year ended December 2015	# of Shares	
At beginning of the year	962,376,330	$ 5,280,302
Shares issued for exercise of share options at 5 p per share	1,700,000	130,137
At end of the year	964,076,330	$ 5,410,439

Year ended December 2014	# of Shares	
At beginning of the year	947,685,420	$ 3,940,514
Shares issued for conversion of loan notes	9,890,910	910,126
Shares issued for exercise of share options at 5.0-7.16 p per share	4,800,000	429,662
At end of the year	962,376,330	$ 5,280,302

21. Foreign exchange translation reserve

Foreign exchange translation reserve represents the exchange differences arising from the translation of the financial statements of the Parent Company into the Group’s reporting currency and the translation at the closing rate of the net investment in the subsidiaries.

22. Special (restricted) reserve

Special (restricted) reserve represents the restricted-use reserves created as a result of the capital reduction exercise in November 2013. The Special (restricted) reserve is not distributable and shall remain un-distributable for so long as all debts or claims against the Company that were in existence as at 20 November 2013 remain outstanding.

23. Share-based payment reserve

The Company operates a share option scheme to which Directors, senior management and employees of the Company participate. Options are exercisable at a price equal to the average market price of the Company's shares on the date of grant or higher at the discretion of the Remuneration Committee. The vesting period is three years or shorter at the discretion of the Remuneration Committee and may be subject to performance conditions. The options are settled in equity once exercised. During 2014, the Remuneration Committee approved the issue of Share Awards of 2,700,000 new ordinary shares to two Directors. The options expire after 10 years from the date of grant.

The Company has also issued share warrants in prior financial years which were exercisable immediately upon issue.

Details of the number of share options and warrants and the weighted average exercise price (WAEP) outstanding during the year are as follows:

2015

	Number of options	WAEP £	Number of warrants	WAEP £
Outstanding at the beginning of the year	52,350,000	0.0594	130,000,000	0.054938
Exercised	(1,700,000)	0.0500	-	-
Cancelled	(5,300,000)	0.1004	-	-
Outstanding at the year end	45,350,000	0.0549	130,000,000	0.054938
Number vested and exercisable at end of year	42,650,000	0.0583	130,000,000	0.054938

2014

	Number of options	WAEP £	Number of warrants	WAEP £
Outstanding at the beginning of the year	54,050,000	0.0580	130,000,000	0.054938
Issued	3,300,000	0.0224	-	-
Exercised	(4,800,000)	0.0554	-	-
Cancelled	(200,000)	0.0619	-	-
Outstanding at the year end	52,350,000	0.0594	130,000,000	0.054938
Number vested and exercisable at end of year	45,750,000	0.0577	130,000,000	0.054938

Details of the options and warrants issued or extended during 2014 are presented below:

- 600,000 options were subject to a performance condition such that they will vest upon the share price achieving an average of 15p per Ordinary Share (subject to adjustment in accordance with the rules of the Share Option Scheme) over a period of 30 consecutive business days within a two year period from the date of grant. Of the options issued, 300,000 had an exercise price of 12.75p and the remaining 300,000 had an exercise price of 9.65p.

- 2,700,000 share awards were issued, which are comprised of options with an exercise price of 0.25p. The share awards are based on certain vesting conditions which are share price performance over a 27 month period and value realised in any future change of control event. The minimum price at which any award can be made is 11.66 pence per ordinary share, 25% above the closing mid-market price of the Company's ordinary shares on the grant date of 1 October 2014. The share awards are also conditional upon the recipient maintaining a certain minimum level of share-holding or holding of unexercised share options throughout the performance period.

- 30,000,000 warrants with a two-year life issued in the prior year attached to a loan agreement were extended to March 2019 (see Note 19). The incremental fair value attributable to the warrants was $489,220.

23. Share-based payment reserve (continued)

- 100,000,000 warrants issued in 2012 in connection with the issuance of $15,604,889 (£10.0 million) zero coupon convertible unsecured loan notes were extended to March 2019 (see Note 19). The incremental fair value attributable to the warrants was $1,272,250.

The fair value of options issued or extended 2014 were calculated using the Black Scholes model as the effect of market-based conditions was immaterial, except for 2,700,000 share awards issued in 2014, which have been valued using a Log-normal Monte-Carlo stochastic model.

The inputs for the valuation of the option and warrants issued in 2014 are as follows:

		2014	
	Options		Warrants
Number granted	600,000	2,700,000	130,000,000
Share price at date of grant	9.71-12.25p	9.3p	9.35p
Exercise price	9.65-12.75p	0.25p	7.25p
Expected volatility	68%	74%	55%
Expected life	1.5 years	2.25 years	2.25 years
Risk free rate	1.72%-1.84%	1.23%	1.81%
Expected dividend yield	0%	0%	0%
Fair value / incremental fair value at date of grant	9.71-12.25p	4.46p	0.78p

Expected volatility was determined by calculating the historical volatility of comparable companies in the same industry. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

As at 31 December 2015, the number of share options and their expiration by year are as follows:

2016	3,600,000
2017	7,050,000
2021	2,500,000
2022	29,500,000
Thereafter	2,700,000
Total	45,350,000

24. Equity option on convertible loans

Equity option on convertible loans represents the equity component of convertible loan notes issued discussed in Note 19.

25. Cash flow hedging reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into that, for accounting purposes, qualify as cash flow hedges. At the time in which the gains or losses are recorded, the associated deferred tax is also recorded. As the cash flow hedge volume is realized, the cumulative gain or loss arising on changes in fair value of the hedging instruments related to the associated volumes are reclassified to profit or loss.

	2015	2014
Balance at beginning of year	$ 3,773,830	$ -
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges:		
Unrealised gain on oil hedging instruments	6,304,905	6,136,124
Deferred tax on unrealised gain on oil hedging instruments	(2,244,635)	(2,086,282)
Gains reclassified to profit and loss:		
Realised gain on oil hedging instruments reclassified to profit and loss	(7,837,223)	(276,012)
Deferred tax on realised gain on oil hedging instruments reclassified to profit and loss	2,790,161	-
Balance at end of year	$ 2,787,038	$ 3,773,830

26. Cash Flow from Operating Activities

	2015	2014
Loss before tax	$(70,181,468)	$ (5,749,071)
Finance income	(173,641)	(367)
Finance costs	5,078,442	5,914,059
Share-based payment	251,666	702,695
Release of contingent consideration provision	(2,666,500)	-
Gain on disposal of property, plant and equipment	(7,940)	(78,887)
Fair value (gain) loss on royalty liability	2,371	(294,910)
Impairment of intangible assets net of provision released for asset retirement costs	38,526,511	12,896,169
Impairment of property, plant and equipment	36,617,592	7,410,183
Depreciation	6,711,917	5,355,128
Amortisation and contribution from test revenue	573,221	1,747,882
	14,732,171	27,902,881
Changes in working capital		
Decrease in inventory	134,153	47,150
Decrease in trade and other receivables	1,008,766	34,554
Increase in trade and other payables	788,370	470,338
	16,663,460	28,454,923
Taxes paid	-	(230,445)
Net cash flow from operating activities	$ 16,663,460	$28,224,478

27. Financial Instruments

Categories of financial instruments
The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

	2015	2014
Financial assets		
Cash and cash equivalents	$ 5,969,485	$ 5,019,527
Derivatives not qualifying for hedge accounting carried at fair value through profit and loss	172,850	-
Hedging instruments carried at fair value	4,327,794	5,860,112
Trade and other receivables (excluding prepayments)	2,487,343	3,248,646
Total	$ 12,957,472	$ 14,128,285
Financial liabilities		
Future loan royalty payments held at fair value through profit and loss	$ 62,130	$ 131,648
Financial liabilities held at amortised cost	58,085,037	50,381,571
Contingent consideration	333,500	3,000,000
Total	$ 58,480,667	$ 53,513,219

Fair value measurements
This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis:

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of the material financial assets are determined.

Financial assets / financial liabilities	Fair value at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2015	2014				
Oil price swaps (designated for hedging)	$4,327,794	$5,860,112	Level 2	Discounted cash flow	N/A	N/A

Credit risk was not significant to derivative fair values.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis
The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values (due to their nature and short times to maturity).

28. Financial Instrument, Financial and Capital Risks Management

The Group is exposed to various financial risks arising in the normal course of business. It has adopted financial risk management policies and utilised a variety of techniques to manage its exposure to these risks

(a) Credit risk

The Group's credit risk is primarily attributable to its cash balances and trade receivables, together with oil swap derivative counterparties. Although the Group markets its crude oil to one counterparty, the Group has not historically experienced any bad debts or delays in payment with respect to its trade receivables.

Trade and other receivables

The Group's total credit risk amounts to the total of the sum of the receivables and derivative assets.

Cash and cash equivalents

Cash at bank is held with creditworthy financial institutions which are licensed banks in the countries that the Group operates.

(b) Liquidity risk

In managing liquidity risk, the main objective of the Group is to ensure that it has the ability to pay all of its liabilities as they fall due. The Group monitors its levels of working capital to ensure that it can meet its liabilities as they fall due. The Group ensures it has appropriate levels of working capital through operational cash flows, debt facilities and, as applicable, accessing equity markets, to meet its obligations as they fall due.

The table below shows the undiscounted cash flows on the Group's financial liabilities as at 31 December 2015 and 31 December 2014 on the basis of their earliest possible contractual maturity.

	Total	0-60 Days	61-180 Days	181 –365 days	1-2 years	2-5 years
At 31 December 2015						
Trade payables	$ 916,903	$ 916,903	$ -	$ -	$ -	$ -
Royalty payables	62,130	3,175	6,350	9,525	16,105	26,975
Accruals	4,080,401	-	4,080,401	-	-	-
Shareholder loan issued with warrants	15,100,000	378,082	369,863	756,164	1,500,000	12,095,891
Convertible loan notes - Jan 12	7,628,971	-	-	-	-	7,628,971
Convertible loan notes - Jun 13	5,977,249	-	207,704	209,986	417,690	5,141,869
Convertible loan notes – Aug 15	9,448,557	-	-	-	-	9,448,557
Bank loan(1)	27,022,329	27,022,329	-	-	-	-
Contingent Consideration	333,500	-	-		333,500	-
	$70,570,040	$28,320,489	$4,664,318	$ 975,675	$2,267,295	$34,342,263

28. Financial Instrument, Financial and Capital Risks Management (continued)

	Total	0-60 Days	61-180 Days	181 –365 days	1-2 years	2-5 years
At 31 December 2014						
Trade payables	$ 5,930,641	$5,930,641	$ -	$ -	$ -	$ -
Royalty payables	131,648	7,818	15,635	23,453	30,418	54,324
Accruals	4,367,956	-	4,367,956	-	-	-
Shareholder loan issued with warrants	16,600,000	378,082	365,753	756,164	3,004,110	12,095,891
Convertible loan notes - Jan 12	8,400,443	-	-	-	-	8,400,443
Convertible loan notes - Jun 13	6,751,453	-	219,283	221,693	6,310,477	-
Bank loan	26,946,526	18,493	461,559	611,741	1,073,152	24,781,581
Contingent Consideration	3,000,000	-	-	-	-	3,000,000
	$72,128,667	$6,335,034	$5,430,186	$ 1,613,051	$10,418,157	$48,332,239

(1) Subsequent to 31 December 2015, the Company has received waivers on the bank loan through 10 June 2016 and paid down $4,000,000 of the outstanding loan balance. See Note 19 for additional disclosure.

(c) Market Risk

Interest rate risk and sensitivity analysis

The Group has borrowings at fixed and at variable rates. At the balance sheet date, the Group's exposure to variable interest rates was not considered a material risk and no interest rate hedge contracts had been entered into. The interest rate risk on both interest received and paid is immaterial.

Contingent consideration risk and sensitivity analysis

The Group has a contingent consideration liability relating to the acquisition of certain lease assets discussed in Note 30. At the balance sheet date, the Group's exposure to variable lease rates was not considered a material risk. A 10% change in either the average price per mineralised acre or the probability of occurrence would not result in a material change in the carrying amount of the contingent consideration liability.

Oil price risk

The Group enters into certain crude oil price swap contracts, costless collars and derivative financial instruments referenced to WTI-NYMEX over a proportion of its oil sales volume in order to manage its exposure to oil price risk associated with sales of oil.

As at 31 December 2015, the Group held the following contracts:

Product and type of hedging contract	Remaining quantity (Bbls)	Fixed price WTI NYMEX Index	Remaining term	Estimated fair value
Swaps:				
A-Oil	56,340	$75.30	Jan 16 – Nov 17	$ 1,822,377
B-Oil	26,685	$56.50	Jan 16 – Apr 16	472,064
C-Oil	36,215	$63.00	Jan 16 – Dec 16	785,757
D-Oil	36,215	$63.85	Jan 16 – Dec 16	816,539
E-Oil	30,000	$49.00	Jul 16 – Dec 16	172,850
	185,455			4,069,587
Costless collars:				
Oil	28,986	$55.00 – $70.10	Jan 16 – Dec 16	431,057
	214,441			$ 4,500,644
Current				$ 3,997,996
Non-current				502,648
				$ 4,500,644

28. Financial Instrument, Financial and Capital Risks Management (continued)

The swap contracts A-D outstanding at 31 December 2015 and 2014 were designated as cash flow hedges of highly probable forecast transactions at inception and were assessed to be highly effective. Based upon hedge effectiveness testing, the cash flow hedges were deemed highly effective at year end, with a fair value movement of $6.3 million charged directly in the cash flow hedging reserves. None of these hedges were ineffective. Swap contract E was not designated as a cash flow hedge during 2015.

During the year 2015, swap contracts for 373,464 barrels matured generating income of $7.8 million compared to $0.3 million for 2014. This income is an addition to sales revenue.

The following table indicates the impact, for a change in crude oil prices, on the value of the Group's swap contracts and costless collars at the balance sheet date, and with all other variables being held constant.

	Change in WTI Crude Oil Price	December 2015
WTI Oil Price	+10.0%	$(876,649)
	-10.0%	$ 882,472

Refer to the Consolidated Statement of Comprehensive Income and Expenditure and Notes 2, 17 and 25 for further relevant information.

Foreign exchange risk

The Group's principal exposure to foreign exchange risk is in relation to the United States Dollar and Sterling exchange rates, due to the concentration of cash and cash equivalents and convertible loan notes that are held in Sterling. The following table presents the financial assets and liabilities of the Group. The amounts which are held in Pound Sterling have been converted to US$.

2015	Carrying values	Sterling	US Dollars
Financial assets			
Cash and cash equivalents	$ 5,969,485	$ 310,072	$ 5,659,413
Derivatives designated and effective as hedging instruments carried at fair value	4,327,794	-	4,327,794
Derivatives not qualifying for hedge accounting	172,850	-	172,850
Trade and other receivables (excluding prepayments)	2,487,343	6,848	2,480,495
	$ 12,957,472	$ 316,920	$ 12,640,552
Financial liabilities			
Fair value of future loan royalty payments	$ 62,130	$ 62,130	$ -
Amortised cost	56,085,037	25,063,080	31,021,957
Contingent consideration	333,500	-	333,500
	$ 56,480,667	$25,125,210	$ 31,355,457
2014			
Financial assets			
Cash and cash equivalents	$ 5,019,527	$ 97,655	$ 4,921,872
Derivatives designated and effective as hedging instruments carried at fair value	5,860,112	-	5,860,112
Trade and other receivables (excluding prepayments)	3,248,646	58,011	3,190,635
	$14,128,285	$ 155,666	$ 13,972,619
Financial liabilities			
Fair value of future loan royalty payments	$ 131,648	$ -	$ 131,648
Amortised cost	50,381,571	8,857,510	41,524,061
Contingent consideration	3,000,000	-	3,000,000
	$ 53,513,219	$ 8,857,510	$44,655,709

28. Financial Instrument, Financial and Capital Risks Management (continued)

The foreign exchange rate risk on the value of the cash and cash equivalents at the balance sheet date is immaterial.

The following table indicates the impact of a change in foreign exchange rate on the value of the Sterling denominated loan notes at the balance sheet date, and with all other variables being held constant, on the Group's equity.

	Change in US$/GBP exchange rate	December 2015	Change in US$/GBP exchange rate	December 2014
Sterling	+5.0%	$(745,571)	+5.0%	$(414,139)
	-5.0%	$ 745,571	-5.0%	$ 414,139

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to manage the cost of capital effectively. The Group defines capital as being share capital plus reserves as disclosed in the Consolidated Statement of Changes in Equity, and monitors its capital profile using a net debt to equity ratio. The Board of Directors monitor the level of capital as compared to the Group's commitments and, where necessary, adjusts the level of capital as is determined to be necessary by issuing new shares.

The Group is not subject to any externally imposed capital requirements.

	2015	2014
Debt:		
Straight	$ 36,171,378	$ 31,791,467
Convertible	14,916,355	8,291,507
	51,087,733	40,082,974
Cash	(5,969,485)	(5,019,527)
Net debt	$ 45,118,248	$ 35,063,447
Equity	$ (7,620,194)	$ 58,669,665
Debt to equity ratio	n/a	59.8%

29. Financial Commitments

Except for the commitments disclosed in Notes 14 and 31, the Group had no financial commitments at 31 December 2015 (31 December 2014: $nil).

30. Provisions and contingent consideration

The Company has recorded the following provisions for future obligations.

	2015	2014
Contingent consideration		
At 1 January 2015	$ 3,000,000	$ 3,000,000
Release of contingent consideration provision	(2,666,500)	-
At 31 December 2015	333,500	3,000,000
Asset retirement obligations		
At 1 January 2015	2,071,927	942,568
Recognition of obligations	765,734	1,302,818
Accretion expense	23,371	131,041
Provision released to match costs incurred	-	(304,500)
At 31 December 2015	2,861,032	2,071,927
Total	$ 3,194,532	$ 5,071,927

The contingent consideration relates to the acquisition on 23 January 2012 of an additional 25% interest in the Jolly Ranch Project from Running Foxes Petroleum, Inc. ("RFP") (the "Acquisition"), which increased the Group's working interest from 50% to 75%, prior to the subsequent purchase of the remaining 25% in 2013.

By the terms of the Purchase and Sale Agreement ("PSA"), should the Group enter into an agreement providing for the sale or disposition of all or any portion of its working interest in the acquired subject leases to an unrelated third party before 23 January 2017, then the Group would be required pay to RFP a percentage, equal to the net mineral acres sold or disposed relative to the net mineral acres retained, of the contingent payment, an amount specified in the PSA that is subject to the average price per net mineral acre paid by the unrelated third party. During 2015, based upon the estimated lease values as of 31 December 2015, and expected acreage values to the expiration of the provision on 23 January 2017, the Group reduced the contingent consideration estimated fair value by $2,666,500, from $3,000,000 to $333,500.

The asset retirement obligation provision represents costs estimated to be incurred for plugging, abandoning and reclaiming existing wells sites. The obligation has been recognised and included within the exploration costs intangible assets and production assets based on management's assessment of asset retirement costs that will be incurred at the end of each project's life. The project lives are estimated to range from 1 to 7 years.

31. Operating Lease Arrangements

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2015	2014
Less than one year	-	$ 461,328

During the year to 31 December 2015, the Company incurred $461,328 in relation to operating leases as compared to $5,493,581 during 2014. The operating leases primarily related to drilling rig commitments.

32. Related Party Transactions

The only related party transactions during the year were with the Directors and certain senior management. Key management during the years presented refers to the Board, Mr. K. Hooley and Mr. M. Thomsen.

	Short-term benefits	
	2015	2014
Remuneration:		
Mr R. McCullough	$ 320,572	$ 79,675
Mr J. Claesson	45,763	32,910
Mr S. Gutteridge	-	212,500
Mr R. Swindells*	372,873	279,368
Mr K. Hooley	32,813	-
Mr M. Thomsen*	672,698	379,081
Mr S. Eaton	48,814	57,329
Mr C. Wilson	369,600	371,091
	1,863,133	1,411,654
Social security costs	90,774	103,977
Share-based payments	153,213	260,411
Pension contributions	102,056	68,313
	$ 2,209,176	$ 1,844,655

* Includes severance payments upon termination of employment.

As discussed in Note 19, loans A, B, C, D and G are loans and convertible loans in which Johan Claesson, his close family or companies controlled by him have a material interest.

In the financial years ended 31 December 2015 and 2014, such material interests were, in aggregate, as follows:

	2015	2014
Brought forward balance	$ 19,455,216	$ 24,275,651
New principal lent in year	7,180,000	4,500,000
Foreign exchange movement	(890,985)	(554,197)
Principal repaid	-	(8,500,000)
Production profit share and royalty stream charged in year	355,713	1,526,933
Production profit share and royalty stream paid in year	(518,274)	(1,812,094)
Interest charged in year	1,729,410	2,314,242
Interest paid in year	(1,729,410)	(2,295,319)
Balance owing at end of year (principal and interest)	$ 25,581,670	$ 19,455,216

During the year, Johan Claesson, family members and entities controlled by Mr. Claesson subscribed for $7.18 million (£4,595,200) of zero coupon convertible loan notes.

In addition to the loans noted above, Mr. Claesson also holds 55,000,000 warrants to subscribe for new ordinary shares at 5.0 pence per share that were issued with the zero coupon convertible loan note in January 2012. In the financial year ended 31 December 2013, in connection with the $12.0 million debt facility summarised in Note 19, a company controlled by Johan Claesson was granted 30,000,000 warrants to subscribe for new ordinary shares at 7.25 pence per share.

All related party loan transactions are presented on a contractual basis, rather than an effective interest recognition basis.

33. Investment in Subsidiaries

The Group's Parent Company holds the issued share capital of the following subsidiary undertakings, which are incorporated in the USA and have been included in these consolidated financial statements.

Company	Principal activities	Class	Percentage held
Nighthawk Royalties LLC	Oil and gas development	Ordinary	100%
Nighthawk Production LLC	Oil and gas development	Ordinary	(indirectly) 100%
OilQuest USA LLC	Oil and gas development	Ordinary	(indirectly) 100%

34. Contingent Liabilities

The Directors are not aware of any contingent liabilities within the Group or the Company at 31 December 2015.

35. Ultimate Controlling Party

As at 31 December 2015, Nighthawk Energy plc had no ultimate controlling party.

36. Events After the Balance Sheet Date

Subsequent to 31 December 2015, the Group has negotiated multiple waivers to its existing RBL with CBA, the last one through 10 June 2016.

The Company has also filed for approval of a water flood project with the COGCC and obtained conditional approval in March 2016. Amended filings have been made and final approval is expected in early June 2016.

See Note 37 for subsequent event concerning the outstanding lawsuit.

37. Litigation

The Group previously announced on 21 May 2014 that Running Foxes Petroleum, Inc., as plaintiff, brought a lawsuit against Nighthawk Production LLC, a subsidiary of the Group, as defendant, in the United States District Court, District of Colorado. The Group believes that the case is completely without merit. On 12 March 2015, the claim for breach of fiduciary duty was dismissed without prejudice.

Nighthawk Production LLC filed a motion for summary judgment to dispose of the remaining claims. The facts and governing law do not give rise to any valid legal claim by Running Foxes Petroleum Inc. against Nighthawk Production LLC, or otherwise raise a valid business issue that needs to be resolved between the companies. On 30 March 2016, two of the remaining claims were dismissed, one in which the plaintiff claimed breach of contract of a settlement agreement, and the other in which the plaintiff claimed breach of the implied covenant of good faith and fair dealing.

The other remaining claims in this case include Running Foxes Petroleum, Inc.'s claim for declaratory judgment as to an overriding royalty interest in a particular lease, and their counterclaims to the 2013 Purchase and Sale Agreement. Trial is set for the second half of 2015. Nighthawk Production LLC believes that the allegations contained in the remaining complaints are baseless and groundless actions, and will vigorously defend itself against the complaints and seek all available legal remedies.

Parent Company Balance Sheet
as at 31 December 2015

	Notes	2015 £	2014 £
Fixed assets			
Property, plant and equipment		732	468
Investments	2	32,897,977	38,268,508
		32,898,709	38,268,976
Current assets			
Receivables	3	35,301	136,794
Cash at bank		271,185	104,598
		306,487	241,392
Current liabilities			
Trade and other payables	4	(246,861)	(447,603)
Net current assets (liabilities)		59,626	(206,211)
Non-current liabilities			
Borrowings	5	(16,778,981)	(11,596,132)
Net assets		16,179,354	26,466,633
Capital and reserves			
Share capital	6	2,410,191	2,405,941
Share premium	6	853,903	773,153
Special (restricted) reserve		18,420,536	18,420,536
Share-based payment reserve		3,341,916	3,377,868
Equity option on convertible loans		4,512,925	2,336,829
Retained deficit		(13,360,117)	(847,694)
Shareholders' equity		16,179,354	26,466,633

The notes on pages 66 to 74 form part of these financial statements.

The financial statements were approved by the Board of Directors on 1 June 2016 and were signed on its behalf by:

Rick McCullough
Executive Chairman

Parent Company Statement of Changes in Equity
for the year ended 31 December 2015

	Share capital £	Share premium £	Special (restricted) reserve £	Retained deficit £	Share-based payment reserve £	Equity option on convertible loans £	Total £
Balance at 1 January 2015	2,405,941	773,153	18,420,536	(847,694)	3,377,868	2,336,829	26,466,633
For the year ended 31 December 2015							
Loss for the year	-	-	-	(12,718,843)	-	-	(12,718,843)
Total comprehensive income (loss)	-	-	-	(12,718,843)	-	-	(12,718,843)
Share-based payments	-	-	-	-	170,468	-	170,468
Exercised and expired options and warrants	4,250	80,750	-	206,420	(206,420)	-	85,000
Issue of convertible loan notes	-	-	-	-	-	2,176,096	2,176,096
Balance at 31 December 2015	**2,410,191**	**853,903**	**18,420,536**	**(13,360,117)**	**3,341,916**	**4,512,925**	**16,179,354**
Balance at 1 January 2014	2,369,214	-	18,420,536	(464,345)	1,936,921	1,652,020	23,914,346
For the year ended 31 December 2014							
Loss for the year	-	-	-	(2,118,723)	-	-	(2,118,723)
Total comprehensive income (loss)	-	-	-	(2,118,723)	-	-	(2,118,723)
Share-based payments	-	-	-	-	450,838	-	450,838
Issue of share capital for cash	1,902	253,880	-	-	-	-	255,782
Exercised and expired options and warrants	-	-	-	93,452	(93,452)	-	-
Extension of convertible loan notes and borrowings	-	-	-	1,627,970	1,083,561	708,859	3,420,390
Conversion of convertible loan notes	34,825	519,273	-	13,952	-	(24,050)	544,000
Balance at 31 December 2014	**2,405,941**	**773,153**	**18,420,536**	**(847,694)**	**3,377,868**	**2,336,829**	**26,466,633**

Notes to the Parent Company Financial Statements
for the year ended 31 December 2015

1. Accounting Policies

Basis of Preparation
The annual financial statements of Nighthawk Energy plc (the Parent Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements (“FRS 100”) and Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

Disclosure exemptions adopted
In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company’s capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with the Company’s wholly owned subsidiaries.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Company’s Consolidated Financial Statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value)
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value)

First time application of FRS 100 and 101
In the current year the company has adopted FRS 100 and FRS 101. In previous years the financial statements were prepared in accordance with applicable UK accounting standards.

This change in the basis of preparation has materially altered the recognition and measurement requirements previously applied in accordance with EU endorsed IFRS. An explanation of the impact of the adoption of FRS 100 and FRS 101 for the first time is included in Note 9.

There have been no other material amendments to the disclosure requirements previously applied in accordance with EU endorsed IFRS.

As permitted by section 408 of Companies Act 2006, a separate Income Statement for the Company has not been included in these financial statements. The Company’s loss for the year ended 31 December 2015 was £1,155,969 (2014: £2,118,723).

The principal accounting policies adopted in the preparation on the Notes to the Consolidated Financial Statements as set out below have been consistently applied to all periods presented.

The financial statements have been prepared under the historical cost convention.

The presentation currency used is sterling.

Financial Instruments
See policies on Financial Instruments in Note 2 of the Notes to Consolidated Financial Statements.

1. Accounting Policies (continued)

Special (restricted) Reserve

A merger reserve previously arose from the Company's merger with a subsidiary, and reflected the difference between the nominal value of the shares issued plus the fair value of other consideration paid by the Company and the nominal value of the shares received in exchange from its subsidiary. On 20 November 2014, the Company carried out a capital reduction exercise. This resulted in the Company's share premium and the merger reserve being cancelled in full (no impact on share capital), with an amount recognised in the income statement and the creation of a special (restricted) reserve.

Foreign Currency

The financial statements are presented in UK pounds sterling, which is the Company's functional currency.

Transactions entered into by the company in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

Share-Based Payments

See policies on share-based payments in Note 2 of the Notes to Consolidated Financial Statements.

Warrants

See policies on warrants in Note 2 of the Notes to Consolidated Financial Statements.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment.

Current Taxation

Current tax is based on the taxable income at the statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred Taxation

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are provided in full.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Income Statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity accordingly.

Notes to the Parent Company Financial Statements (continued)
for the year ended 31 December 2015

1. Accounting Policies (continued)

Equity
Equity comprises the following:

- "Share capital" represents amounts subscribed for shares at nominal value.
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- "Share-based payment reserve" represents the accumulated amounts credited to equity in respect of options to acquire ordinary shares in the Company.
- "Retained deficit" represents the accumulated profits and losses attributable to equity shareholders.
- "Equity option on convertible loans" represents the equity component of convertible loan notes issued.
- "Special (restricted) reserve" represents the restricted-use reserves created as a result of the capital reduction exercise in November 2013. The Special (restricted) reserve is not distributable and shall remain undistributable for so long as all debts or claims against the Company that were in existence as at 20 November 2013 remain outstanding."

2. Investments

	Shares in Group Undertakings	Investments in Subsidiaries	Long term loans to Subsidiaries	Total
	£	£	£	£
Cost				
As at 1 January 2015	103,561	20,359,702	17,805,245	38,268,508
Additions	-	135,029	5,186,048	5,321,077
Interest on inter-company loans	-	-	2,234,965	2,234,965
Payment of loan principal	-	-	(54,947)	(54,947)
Payment of interest	-	-	(1,308,752)	(1,308,752)
Impairment of investment	-	(11,562,874)	-	(11,562,874)
As at 31 December 2015	103,561	8,931,857	23,862,559	32,897,977

The Company holds the issued share capital of the following subsidiary undertakings, which are incorporated in the USA.

Company	Principal activities	Class	Percentage held
Nighthawk Royalties LLC	Oil and gas development	Ordinary	100%
Nighthawk Production LLC	Oil and gas development	Ordinary	(indirectly) 100%
OilQuest USA LLC	Oil and gas development	Ordinary	(indirectly) 100%

The impairment in investment in subsidiaries is due to the decrease in the underlying value of the oil and gas assets help by the Company's US subsidiaries. See additional discussion in Notes 2, 9, 12 and 13 in the Notes to Consolidated Financial Statements.

3. Receivables

	2015	2014
	£	£
Other receivables	4,639	37,218
Amounts due from group undertakings	-	60,055
Prepayments	30,662	39,521
	35,301	136,794

4. Trade and other payables

	2015	2014
	£	£
Trade payables	29,668	31,557
Accruals	175,109	331,583
Royalty liability	42,084	84,463
	246,861	447,603

5. Borrowings

The following table summarises the initial fair values of all loan instruments held within Borrowings, including the equity instrument values for those instruments accounted for as compound financial instruments, and initial embedded royalty instrument values for loans with such royalties classified as financial instruments. All loans are unsecured and subsequently held at amortised cost. As all loan maturities are greater than one year, all borrowings at 31 December 2015 and 2014 are classified as non-current on the accompanying Balance Sheet.

Loan	A	B	C	D	E	G	Total
	£	£	£	£	£	£	£
Original date of issue	May 2013	January 2012	June 2013	Julu 2013			
Proceeds of issue	3,015,092	10,000,000	3,800,000	7,800,564	-	-	24,615,656
Recognised at inception as:							
Financial liability	3,015,092	7,117,802	3,632,007	7,728,799	-	-	21,493,700
Equity instrument (conversion option/ detachable warrants)	-	2,882,198	167,993	71,765	-	-	3,121,956
	3,015,092	10,000,000	3,800,000	7,800,564	-	-	24,615,656
Date of rescheduling/issue	September 2014	September 2014	September 2014	September 2014	January 2014	August 2015	
Loan rescheduled		5,167,500	3,135,000	6,151,461	-	-	14,453,961
Proceeds of new loans issued	-	-	-	-	913,627	6,400,000	7,313,627
Recognised on rescheduling/issue as:							
Financial liability	-	3,103,126	2,862,546	6,151,461	628,874	4,223,903	16,969,910
Royalty liability embedded in loan	-	-	-	-	284,753	-	284,753
Equity instrument (conversion option/ detachable warrants)	-	2,064,374	272,454	-	-	2,176,096	4,512,925
	-	5,167,500	3,135,000	6,151,461	913,627	6,400,000	21,767,588
Less: warrants extension charge/ transaction charges	-	(782,619)	-	(300,942)	-	(185,600)	(1,269,161)
Net financial liability	-	2,320,507	2,862,546	5,850,519	628,874	4,038,303	15,700,749

5. Borrowings (continued)

The following table sets out the carrying values of the loans and borrowings:

	£	£	£	£	£	£	£
Date of issue	May 2013	January 2012	June 2013	July 2013	January 2014	August 2015	
Effective interest rate	15%	12%	12%	12%			
Original liability at date of issue	3,015,092	7,117,802	3,632,007	7,728,799	-	-	21,493,700
Borrowings at 31 December 2013	**3,073,779**	**4,609,422**	**3,574,848**	**5,490,240**	**-**	**-**	**16,748,289**
Foreign exchange variance	-	-	-	265,470	9,728	-	275,198
Issue of loans	-	-	-	-	628,874	-	628,874
Additional loan drawdown	-	-	-	2,734,761	-	-	2,734,761
Interest charge to September 2015	335,646	410,302	285,793	677,568	369,662	-	2,078,971
Interest paid to September 2015	(394,333)	-	(245,911)	(755,548)	(85,545)	-	(1,481,337)
Loan notes converted	-	-	(533,900)	-	-	-	(533,900)
Repayment of loan capital	(3,015,092)	-	-	(2,127,036)	(922,719)	-	(6,064,847)
Loan de-recognised on rescheduling at September 2015	-	(5,019,724)	(3,080,830)	(6,019,985)	-	-	(14,120,539)
New financial liability recognised on rescheduling at September 2015	-	2,320,507	2,862,546	5,850,519	-	-	11,033,572
Interest charge to 31 December 2015	-	107,054	83,122	265,444	-	-	455,620
Interest paid to 31 December 2015	-	-	(71,117)	(87,413)	-	-	(158,530)
Borrowings at 31 December 2014	**-**	**2,427,561**	**2,874,551**	**6,294,020**	**-**	**-**	**11,596,132**
Foreign exchange variance	-	-	-	329,015	-	-	329,015
Issue of loans	-	-	-	-	-	4,038,303	4,038,303
Interest charge	-	480,684	321,494	1,038,995	-	223,453	2,064,626
Interest paid	-	-	(265,766)	(983,329)	-	-	(1,249,095)
Borrowings at 31 December 2015	**-**	**2,908,245**	**2,930,279**	**6,678,701**	**-**	**4,261,756**	**16,778,981**

Notes to the Parent Company Financial Statements (continued)
for the year ended 31 December 2015

5. Borrowings (continued)

Summary of borrowing arrangements
See Note 19 to the Consolidated Financial statements.

6. A) Share Capital

	2015 £	2014 £
Allotted, issued and fully paid		
964,076,330 shares (31 December 2014: 962,376,330 shares) of 0.25 pence	2,410,191	2,405,941

Allotments during the year
During 2015, 1,700,000 shares were allotted for the exercise of share options at a price per share of 5p resulting in total consideration received of £85,000.

Presented below is the transactions which occurred during the year relating to the Groups ordinary shares of 0.25 pence per share. Shares are allotted, issued and fully paid.

Year ended 31 December 2015	# of Shares	£
At beginning of the year	962,376,330	3,179,094
Shares issued for exercise of share options at 5p per share	1,700,000	85,000
At end of the year	964,076,330	3,264,094

Year ended 31 December 2014	# of Shares	£
At beginning of the year	947,685,420	2,369,214
Shares issued for conversion of loan notes	9,890,910	554,098
Shares issued for exercise of share options at 5.0-7.16p per share	4,800,000	255,782
At end of the year	962,376,330	3,179,094

6. B) Share-Based Payments – Options and Warrants

Details of share options, share awards and warrants issued by the Company are set out in Note 23 to the Consolidated Financial Statements.

The Company recognised total expenses of £170,468 (2014: £450,838) related to share options and share awards accounted for as equitysettled sharebased payment transactions during the year, and £nil (2014: £1,083,561) related to warrants (issued with loans).

As at 31 December 2015, an adjustment of £206,420 (2014: £93,452) has been made to the Share Options reserve, transferring to Retained Deficit amounts relating to options and warrants that have been exercised or expired.

7. Related Party Transactions

The only related party transactions during the year were with the Directors and certain senior management. Key management refers to the Board and Mr R McCullough, Mr C. Wilson and Mr K. Hooley.

	Short-term benefits	
	2015	2014
	£	£
Remuneration:		
Mr R. McCullough	-	-
Mr S. Gutteridge	-	129,142
Mr R. Swindells	247,477	169,779
Mr C. Wilson	-	-
Mr S. Eaton	34,955	34,840
Mr J. Claesson	30,000	20,000
Mr K. Hooley	-	-
	312,432	353,761
Social security costs	33,614	47,062
Share-based payments	177,230	167,075
Pension contributions	23,750	28,875
	547,026	596,773

Included in Note 5 (loans A, B, C, D and G) are loans and convertible loans in which Johan Claesson, his close family or companies controlled by him have a material interest. In the financial year ended 31 December 2015 and 2014, such material interests were, in aggregate, as follows:

	2015	2014
	£	£
Brought forward balance	12,482,159	14,654,408
New principal lent in year	4,595,200	2,734,761
Foreign exchange movement	371,017	420,448
Principal repaid	-	(5,165,659)
Production profit share and royalty stream charged in year	233,189	927,955
Production profit share and royalty stream paid in year	(339,756)	(1,101,254)
Interest charged in year	1,133,719	1,406,422
Interest paid in year	(1,133,719)	(1,394,922)
Balance owing at end of year/period (principal and interest)	17,341,809	12,482,159

During the year, Johan Claesson, family members and entities controlled by Mr. Claesson subscribed for $7.18 million (£4,595,200) of zero coupon convertible loan notes.

In addition to the loans noted above, Mr. Claesson also holds 55,000,000 warrants to subscribe for new ordinary shares at 5.0 pence per share that were issued with the zero coupon convertible loan note in January 2012. In the financial year ended 31 December 2013, in connection with the $12.0 million debt facility summarised in Note 19 of the Notes to Consolidated Financial Statements, a company controlled by Johan Claesson was granted 30,000,000 warrants to subscribe for new ordinary shares at 7.25 pence per share

All related party loan transactions are presented on a contractual basis, rather than an effective interest recognition basis.

Notes to the Parent Company Financial Statements (continued)
for the year ended 31 December 2015

8. Events After the Balance Sheet Date

See Note 36 of the Notes to the Consolidated Financial Statements.

9. First time adoption of FRS 101 Reduced Disclosure Framework

This is the first time that the company has adopted FRS 101 having previously applied applicable UK accounting standards. The date of transition to FRS 101 was 1 January 2014. In applying FRS 101 for the first time the company has made the following elections:

- To retain the carrying amount of investment in subsidiaries at the date of transition to FRS 101 at the carrying amount at that date in accordance with applicable UK accounting standards.

There are no changes to the company's equity and total comprehensive income as a result of applying FRS 101 for the first time.

Company information

Directors
Rick McCullough (Executive Chairman)
Charles (Chuck) Wilson (Chief Operating Officer)
Johan Claesson (Non-executive Director)
Stuart Eaton (Non-executive Director)

Company Secretary and Registered Office
Kurtis Hooley
Nighthawk Energy plc
6th Floor
One London Wall
London EC2Y 5EB

Incorporation number
04000483

UK Corporate Office
Nighthawk Energy plc
6th Floor
One London Wall
London EC2Y 5EB

Telephone: +44 (0) 20 3582 1350

Website: www.nighthawkenergy.com

Nominated Adviser & Joint Broker
Stockdale Securities
Beaufort House
15 St. Botolph Street
London EC3A7BB

US Corporate Office
Nighthawk Production LLC
1805 Shea Center Drive, Suite 290
Highlands Ranch
Colorado 80129
USA

Telephone: +1 303 407 9600

Principal American Liaison
Bank of New York Mellon
101 Barclay Street
21 West New York
New York 10286
USA

Auditors
BDO LLP
55 Baker Street
London W1U 7EU

Solicitors in UK
Greenberg Traurig Maher LLP
The Shard, Level 8
32 London Bridge Street
London, SE1 9SG

Solicitors in USA
Beatty & Wozniak, P.C.
216 Sixteenth Street, Suite 1100
Denver, Colorado USA 80202

Greenberg Traurig
1200 17th Street
Suite 2400
Denver, Colorado USA 80202

Public Relations Consultants
EnerCom, Inc.
800 18th Street, Suite 200
Denver, Colorado USA 80202

Registrars
Capita Asset Services
40 Dukes Place
London EC3A 7NH

www.capitaassetservices.com

Nighthawk Energy plc
Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (the "AGM") of Nighthawk Energy plc (the "Company") will be held ") to be held at the offices of Greenberg Traurig Maher LLP, The Shard, Level 8 | 32 London Bridge Street | London SE1 9SG on 30 June 2016 at 9.30 a.m. for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the report of the directors and the audited accounts for the year ended 31 December 2015.

2. To re-elect Charles Wilson, who retires in accordance with the Articles of Association of the Company, as a director of the Company.

3. To re-elect Johan Claesson, who retires in accordance with the Articles of Association of the Company, as a director of the Company

4. To appoint BDO LLP as auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

Special Business

5. To consider, and if thought fit, pass the following resolution as an Ordinary Resolution:

   That, in substitution for any equivalent authorities and powers granted to the directors prior to the passing of this resolution, the directors be and they are generally and unconditionally authorised pursuant to Section 551, Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares of the Company (such shares and rights to subscribe for or to convert any security into shares of the Company being "relevant securities") up to an aggregate nominal amount of £200,000 provided that, unless previously revoked, varied or extended, this authority shall expire on the conclusion of the next Annual General Meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

Registered Office:

6th Floor
One London Wall
London EC2Y 5EB

By order of the Board:

K.S. Hooley
Company Secretary
1 June 2016

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at close of business on 28 June 2016 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2. If you wish to attend the AGM in person, you should make sure that you dial in for the AGM in good time before the commencement of the meeting. You may be asked to provide proof of your identity in order to gain admission.

3. A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent his appointer. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the proxy form.

4. To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Capita Asset Services at PXS, 34 Beckenham Road, Beckenham BR3 4TU, by no later than 9.30 a.m. on 28 June 2016 .

5. The notes to the proxy form include instructions on how to appoint a proxy by using the CREST proxy appointment service.

6. You may not use any electronic address provided either in this Notice of AGM or in any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

7. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

8. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 3 to 5 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

9. There are set out on the previous page explanatory notes to the resolutions to be proposed at the AGM. If you require further guidance you should contact your solicitor or financial adviser.

10. As an alternative to completing your hard copy Form of Proxy, you can appoint a proxy electronically at www.capitashareportal.com. For an appointment to be valid, your appointment must be received no later than 9.30 a.m. on 28 June 2016.

11. Access to the offices where the meeting will be held requires photo identification for entry. Please bring a current photo ID if you plan on attending.

Nighthawk Energy plc
6th Floor
One London Wall
London EC2Y 5EB
United Kingdom

Telephone: +44 (0) 20 3582 1350

www.nighthawkenergy.com

Millnet Limited (9234-01)