Annual report and consolidated financial statements for the year ended 31 December 2016

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Letter to Shareholders

My fellow shareholders,

When we wrote you a year ago, the oil market was in a much different position. The price of oil at West Texas Intermediate ("WTI") had reached a low price below $27 per barrel; there was uncertainty as to where OPEC and the oil and gas industry would go; and Nighthawk was facing significant challenges with our bank and future projects. Today, oil is near $50 per barrel and showing some signs of improvement and we have an exciting project in progress heading into 2017. Looking back over the past year, I am proud of the way our team responded positively and creatively to the challenges that faced the Company. We maintained our disciplined business approach and navigated this challenging time, emerging stronger than before.

Our focus remained on creating shareholder value. We continued to focus our efforts within one of the top-tier economic basins in the United States, the Denver-Julesburg basin. Although we did not drill any new wells during 2016, the Company completed its Water Flood Pilot Project in our Arikaree Creek field ("Pilot Project"). This project, if successful, is expected to provide increased reserves in the range of 1.5 Mmbbls to 2.3 Mmbbls. The Pilot Project covers roughly 700 of the total 1,400 acres in the Arikaree Creek field. The Company raised the required project financing in July from supportive stakeholders and began construction and implementation of the project. In November, injection commenced into the first well. We have started to see results and, based upon initial estimates, believe that there is significant upside both in reserves and production to be realized later this year. The remaining 700 acres provide an opportunity for development and the Company expects that in 2017, an application will be filed with the Colorado Oil and Gas Conservation Commission for development of the Arikaree Creek Northern acreage as a water flood project. Once approval is received, the Company expects to be able to capitalize on additional water flood volumes at a reduced price, as much of the infrastructure already exists within the Pilot Project. In addition, management continues to research, evaluate and investigate existing acreage for high quality, low risk development opportunities. The Company has over 70 miles of 3-D seismic and, with available cash flows, could exploit potential resources.

From a financial standpoint, fiscal 2016 was a year managing assets, opportunities and expectations. Heading into the year, oil prices in January averaged $31.78 per barrel. This low pricing created an environment where asset preservation, mainly cash, became a focal point for most oil and gas companies, including Nighthawk. The Company entered 2016 with approximately $6.0 million in cash but due to debt covenant violations, had to pay down $4.0 million of our reserve based loan in January 2016. Fortunately, the Company's hedging program had 197,000 bbls of oil hedged at an average price per barrel of $61.41. Through headcount and salary reductions, improved efficiencies in operations and a level of dedication by our team, Nighthawk was able to survive this period and emerged 2016 with $5.6 million in cash on hand.

As we look ahead, the future looks promising for Nighthawk and expectations continue to be high. With the potential of two water flood projects, over 150,000 net acres of undeveloped acreage and oil prices currently stabilizing, increased value creation is within reach. With the successful implementation of our water flood Pilot project, we have begun planning the Northern water flood project and evaluating our acreage position for potential drilling locations with reduced risk from 3-D seismic. Challenges still lie ahead including the refinancing of our existing debt facility, however, we believe we are well positioned to overcome these.

I speak for the Board of Directors and all the employees of the Company in expressing our gratitude for your support.

Rick McCullough
Executive Chairman

26 May 2017

Chief Financial Officer's Statement
for the year ended 31 December 2016 *(all amounts are shown in US$)*

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

As shown in the information that follows, 2016 was a year of challenges, uncertainty and volatility for the oil and gas industry and for Nighthawk. We began the year with oil prices being in a depressed state with the January 2016 realized oil price being $31.78. Fortunately, the oil market rebounded slightly and the Company realized an average sales price of $38.10 for the year 2016. This compares to $40.47 for 2015 and $82.16 for 2014. The low-price environment also impacted our Reserve Based Loan ("RBL") with our primary lender, Commonwealth Bank of Australia ("CBA"). Due to a decrease in reserve values, Nighthawk was required to pay down its RBL facility by $4.0 million in January 2016 and renegotiate its credit facility. The Company was able to amend the credit agreement with CBA to provide relief for many of the loan covenants and to extend the loan's maturity date until 30 June 2017. See Note 2 in the Notes to the Consolidated Financial Statements for further discussion.

From a financing side, the Company secured financing from existing loan and shareholders in the amount of $3.0 million to fund the Arikaree Creek Water Flood Pilot Project. As part of this financing, certain of the Company's existing loan note holders agreed to defer their interest until July 2017. In return for this consideration, the deferred interest earns a 15% coupon rate and the opportunity to convert the deferred interest into net shares of the Company. On 5 April 2017, the shareholders of the Company approved the authorities to permit the issuance of new shares in lieu of deferred interest, should the noteholders so elect.

The Company reported a Net Loss of $14.2 million for the year ended 31 December 2016 as compared to a net loss of $70.3 million for the year ended 31 December 2015. The decrease in net loss was due primarily to reduced non-cash impairments, which for the year ended 31 December 2016 were $7.1 million versus $75.1 million for the year ended 31 December 2015, as well as the release of contingent consideration provision of $2.7 million in 2015. The 2016 impairment charges relate to the assessment of the recoverability of the Company's undeveloped assets. This assessment is based upon factors such as market conditions, current spot and forward prices of oil, and future exploration and development plans. Due primarily to the continued depressed oil prices and no current plans to pursue an aggressive drilling program, $7.1 million was written off or impaired relating to the undeveloped assets as at 31 December 2016 as compared to $40.5 million at 31 December 2015.

Of the total impairment recorded at 31 December 2015 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 remainder of $0.5 million was attributable to costs incurred on wells previously fully impaired.

Net loss was also impacted by an $11.6 million reduction of total revenue to $18.0 million for the year ended 31 December 2016 as compared to $29.6 million for the year ended 31 December 2015. This decrease is primarily due to a 26.5% decrease in net sales volumes and a $4.9 million reduction in revenue from hedging.

A more detailed discussion of the results is presented below.

Financial Results

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

	2016	2015
Oil sales volumes, net	394,424	536,972
Average oil price (per barrel)	$38.10	$40.47
Oil revenues	15,027,487	21,729,188
Gains on hedging instruments	2,941,972	7,837,223
Other income	53,874	42,504
Total Revenue	$18,023,333	$29,608,915

The $6.7 million or 30.8% decline in oil revenues is the result of the 26.5% decrease in net sales volumes, due primarily to the natural decline of the Company's reservoirs, and a $2.37 or 5.8% per barrel decline in the price received. The Company, as part of its hedging program, also realised $3.7 million of gains resulting from hedging instruments settled during the year and a loss of $744,000 resulting from mark-to-market derivative instruments.

Sales Volume
The results of the Company's sales are shown in the following table:

	2016	2015
Gross barrels sold	483,195	653,431
Net barrels sold	394,424	536,972
Daily average barrels sold—gross	1,320	1,791
Daily average barrels sold—net	1,077	1,471
Average sales price per barrel	$38.10	$40.47

The decline in net sales volumes of 142,548 or 26.5% is indicative of normal depletion of the Company's reserves offset by the workover and production enhancement projects performed in 2016.

Cost of Sales
The following is a comparative summary of cost of sales:

	2016	2015
Lease operating costs	$5,116,144	$5,765,018
Production severance taxes	967,035	1,543,507
Depreciation	3,582,915	6,594,358
Contribution from test revenue	-	569,521
Production profit shares and royalties	325,835	321,030
Other	69,094	73,155
Total Cost of Sales	$10,061,023	$14,866,589
Lease operating costs per gross barrel	$10.59	$8.82
Lease operating costs per net barrel	$12.97	$10.74

The increase in lease operating costs per barrel is primarily due to the decrease in sales volumes. The fixed charges associated with the operation of the Company's wells has lower volumes by which to be spread across. With decreased sales revenue, there have also been corresponding reductions to severance taxes, contribution from test revenue, and production profit shares and royalties. Depreciation shown above only includes the depreciation related to operating related assets and excludes office equipment and vehicle depreciation, which is recorded as part of general and administrative expenses. Depreciation has increased as compared to prior year as a result of a decline to the reserve base as at 31 December 2015, which resulted in the depreciation rate being higher on a per barrel rate than in 2015. The decline in reserve base as at 31 December 2015 was adversely impacted by a decline in oil prices and the corresponding reduction in well economics.

Administrative Expenses
Administrative expenses decreased $1.7 million or 23.2% to $5.8 million for the year ended 31 December 2016 from $7.5 million for the year ended 31 December 2015 primarily due to reductions in legal costs, reduction of headcount and overall salary reductions.

Financing Costs
Financing costs increased $3.1 million or 60.9% to $8.2 million for the year ended 31 December 2016 from $5.1 million for the year ended 31 December 2015 due primarily to the write off of deferred loan costs of $710,000, an increase in total interest expense of $678,000 and increase in the exchange rate losses on financial liabilities of $1.4 million.

Normalised EBITDA
Normalised EBITDA ("NEBITDA") is presented to provide an analysis of the Company'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 2016, NEBITDA was $5.9 million as compared to $14.5 million for the year ended 31 December 2015. This decline in NEBITDA reflected the decline in the price of crude oil, a decrease in production volumes and a decrease in revenue from the Company's commodity derivatives. NEBITDA per gross and net barrel sold was $12.10/bbl and $14.83/bbl for the year ended 31 December 2016, respectively, as compared to $22.17/bbl and $26.98/bbl, respectively, for the year ended 31 December 2015.

The following table reflects the calculation to reconcile the net loss under IFRS to NEBITDA for 2016 and 2015.

	2016	2015
Net loss	$(14,218,130)	$(70,332,136)
Exceptional administrative expenses	6,797,041	72,477,603
Finance income	(582)	(173,641)
Finance costs	8,172,019	5,078,442
Taxation	1,419,971	150,668
Normalised operating profit[1]	2,170,319	7,200,936
Depreciation, amortisation and contribution from test revenue	3,677,776	7,285,137
Normalised EBITDA	$5,848,095	$14,486,073
Normalised EBITDA per barrel sold—gross	$12.10	$22.17
Normalised EBITDA per barrel sold—net	$14.83	$26.98

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

	2016	2015
Revenue	$18,023,333	$29,608,915
Cost of sales	(10,061,023)	(14,866,589)
Gross profit	7,962,310	14,742,326
Administrative expenses	(5,791,991)	(7,541,390)
Normalised operating profit[1]	2,170,319	7,200,936
Depreciation, amortisation and contribution from test revenue	3,677,776	7,285,137
Normalised EBITDA	$5,848,095	$14,486,073

1. Normalised operating profit is operating profit adjusted for DD&A, contribution from test revenue and exceptional administrative expenses.

Cash flows

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

	2016	2015
Cash flow from operating activities	$6,821,144	$16,663,460
Cash flow from investing activities		
Purchase of intangible assets	(1,083,530)	(15,197,473)
Purchase of property, plant and equipment	(2,417,206)	(11,251,875)
Other	6,082	8,765
Net cash from investing activities	(3,494,654)	(26,440,583)
Cash flow from financing activities		
Repayment of loans	(4,000,000)	(3,000,000)
Proceeds on issue of loans, net of issue costs	3,000,000	7,000,000
Proceeds on issue of convertible loan notes	-	9,710,000
Interest paid	(2,289,665)	(3,102,589)
Other	(94,375)	130,137
Net cash flow from financing activities	(3,384,040)	10,737,548
Net (decrease) increase in cash and cash equivalents	(57,550)	960,425
Cash and cash equivalents at beginning of financial year	5,969,485	5,019,527
Effects of exchange rate changes	(342,894)	(10,467)
Cash and cash equivalents at end of financial year	$5,569,041	$5,969,485

Chief Financial Officer's Statement (continued)
for the year ended 31 December 2016 *(all amounts are shown in US$)*

Cash flows from operating activities
For the year ended 31 December 2016, cash flow from operating activities was $6.8 million as compared to cash flows of $16.7 million for the year ended 31 December 2015 reflecting the decrease in NEBITDA discussed above.

Net Cash flow from investing activities
For the year ended 31 December 2016, net cash flow used in investing activities was $3.5 million and comprised principally of capital expenditures for the Pilot Project. 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. The decline in spending in 2016 as compared to 2015 of 86.8% was a result of reduced cash available commensurate with the decline in economics within the oil and gas industry.

Net cash flow from financing activities
For the year ended 31 December 2016, net cash from financing activities during the year totalled $3.4 million and comprised principally of $3.0 million raised via debt facilities offset by $4.0 million in debt repayments and $2.3 million in interest payments. For the year ended 31 December 2015, net cash flow from financing activities totalled $10.7 million and was comprised of $16.7 million proceeds from debt facilities, offset by $3.0 million in debt repayments and $3.1 million in interest payments.

Debt Facilities

The Company had the following outstanding debt at 31 December 2016:

Description	Interest Rate	Conversion Price	Balance GBP	GBP to US$ Conversion Rate	Balance US$
Reserve Based Loan	Libor + 6 per cent	NA	£18,631,025	1.23	$23,000,000
2012 Convertible Loan Note	Zero Coupon	£0.025	£5,167,500	1.23	$6,379,279
2013 Convertible Loan Note	9 per cent	£0.055	£3,135,000	1.23	$3,870,158
2013 Loan Note	15 per cent	NA	£8,100,446	1.23	$10,000,000
2015 Convertible Loan Note	Zero Coupon	£0.03	£6,400,000	1.23	$7,900,800
2016 Loan Note	15 per cent	NA	£2,430,134	1.23	$3,000,000
			£43,864,105		$54,150,237

The above table only includes the outstanding principal and coupon interest rate and does not include the effect of account discounting or deferred interest rate. During 2016, two significant debt related activities occurred. On 8 January 2016, the Company completed negotiations with CBA to include a reduction to the net borrowing base from $27.0 million to $23.0 million. As part of these negotiations, the Company was required to pay $4.0 million in January 2016 to reduce the outstanding loan balance to the net borrowing base amount. The CBA 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 Company that the borrowing base had been further reduced from $23.0 million to $13.0 million. On 30 June 2016, Nighthawk entered into an amendment, which among other modifications, changed the maturity date of the outstanding loan balance to 30 June 2017.

Also, on 28 July, 2016, the Company entered into a $3.0 million second lien note, with certain existing debt holders, for the purpose of funding the Pilot Project. The notes bear interest at 15% and a one per cent overriding royalty on the incremental volume realised from the Pilot Project. As part of negotiations with CBA to allow for this new secured loan instrument, the Company also agreed to amend the terms of the existing interest bearing unsecured facility agreements issued in 2013 and loan notes under which interest was being paid. This interest is to be deferred during the amended term of the CBA agreement that expires on 30 June 2017, unless extended by CBA at their sole discretion. The loan notes under which the interest was deferred have the option to receive shares or cash for the amounts deferred. See Note 19 in the Notes to the Consolidated Financial Statements for more detailed discussion.

Hedging

As at 31 December 2016, the Company held the following oil commodity derivative hedge positions:

	2016
Swap contracts	
Total remaining volumes (bbls)	65,350
Price (WTI NYMEX; average)	$58.52
Costless collar contracts	
Total volumes (bbls)	96,000
Ceiling	$47.00
Floor	$52.75

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

One of the commodity hedging swap contracts, entered into during 2015, is accounted under IFRS hedge accounting in respect of the Company's commodity derivative hedge positions and represents a total of 17,350 remaining bbls. Under hedge accounting, the change in fair value is recorded as an equity movement in the cash flow hedge reserve rather than through the income statement. Upon utilisation of the oil swap when the oil sales take place, the amounts held in equity are recycled to revenue. All other derivative instruments are accounted for as a mark-to-market hedge instrument through profit or loss.

Shareholders' equity

As at 31 December 2016 there were 964,076,330 ordinary shares of 0.25 pence each in issue. Additionally, as at 31 December 2016, a total of up to 911,066,081 new ordinary shares may be issued pursuant to the exercise of 38,750,000 share options, 130,000,000 warrants, 477,033,333 on convertible loan notes and up to 265,282,748 on conversion of deferred interest payments added during 2016.

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.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2016.

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 and management 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 Company's reasonable control or within the Company'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

26 May 2017

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 joined the Board of Directors in 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 in November 2015 and has over 14 years' experience in the US energy and oil and gas industries and over 17 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 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 Company's US subsidiary.

Strategic Report
for the year ended 31 December 2016

The Directors present their Strategic Report for the year ended 31 December 2016.

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 Company operations during the year ended 31 December 2016 is contained in the Chief Financial Officers Statement.

There was a net loss for the year amounting to $14.2 million for the year ended 31 December 2016 as compared to a net loss of $70.3 million for the year ended 31 December 2015.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2016. No dividend was paid for the year ended 31 December 2015. A review of the Company's financial results for the year is contained in the Chief Financial Officer's Statement.

Review of Nighthawk's Business Activity and Strategic Focus

Nighthawk's primary business activity is the exploration for, development and sale of, hydrocarbons. The Company operates solely in the state of Colorado USA where it currently owns interests in over 150,000 net mineral acres in and around Lincoln County.

The Company leases acreage from land owners for the purpose of exploring and producing hydrocarbons. These lease arrangements pay a percentage of revenue received from production in the form of royalties to landowners and others. These royalties vary by lease and range from 15%-20%. The remaining 80-85% represents the Company's net revenue interest of the production.

In the exploration and development of reserves, the Company engages 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 exploration and development activities

During the year ended 31 December 2016, the Company engaged in the following activities as part of its exploration and production activities:

- Filed and in July 2016, received unconditional approval of an application with the Colorado Oil and Gas Conservation Commission ("COGCC") to implement the Water Flood Pilot Project in the Southern portion of the Company's existing Arikaree Creek area.
- One existing well was plugged and abandoned.
- Achieved sales of 483,195 gross (394,424 net) barrels of oil and generated oil revenues of $15.0 million. This is compared to 2015 sales of 653,431 gross (536,972 net) barrels of oil with revenues of $21.7 million.
- Properly maintained all its field production equipment and well bores.

- Complied with all state and federal regulatory laws and guidelines.
- Maintained its land leasehold position over acreage that management considers to be prospective for hydrocarbons.

The Company's current strategy is focused on generating value for shareholders by:

- Implementation of the low capital cost water flood Pilot Project expected to increase production and reserve value via increase in recovery of oil in place
- Obtaining approval for the future development of a water flood project in the Company's Northern Arikaree Creek field
- Continual improvement and deployment of operational efficiencies in existing wells to maximize production while minimizing costs
- Use of all available geological data to identify opportunities for future drilling locations with the highest probability of discovering commercial quantities of hydrocarbons
- Low cost, vertical drilling to test the existence of hydrocarbons, as market conditions dictate
- Reduction of general and administrative costs
- Efficient marketing arrangements

Key Performance Indicators ("KPI's")

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

The key performance indicators monitored by the Board and senior management in 2016 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
- Cash balances and management
- Earnings before interest, tax, depreciation, amortization and exceptional items ("Normalised EBITDA") and Normalised EBITDA per barrel

During the year ended 31 December 2016, the KPI's were as follows:

- Total gross oil sold for the year ended 31 December 2016 amounted to 483,195 gross barrels of oil (394,424 net) as compared to 653,431 gross barrels of oil (536,972 net) for the year ended 31 December 2015;
- The average sales price per barrel in 2016 was $38.10 versus $40.47 per barrel for 2015;
- Cash on hand as at 31 December 2016 was $5.6 million versus $6.0 as at December 2015. See page 5 for additional discussion.
- Total lease operating costs for the year ended 31 December 2016 were $5.1 million as compared to $5.8 million for 2015 or an equivalent to $10.59 per gross barrel sold ($12.97 net) for 2016 and $8.82 per gross barrel ($10.74 net) for 2015;
- Capital expenditures for 2016 totalled $3.5 million. There were no material variations in capital expenditures from AFE during 2016; through cumulative knowledge gained from past drilling, the Company avoided variances that were attributable to issues encountered whilst drilling that are common to the industry such as equipment stuck downhole, coring taking longer than expected due to complex, fractured reservoir rock and avoiding additional procedures on new wells not envisaged in the original AFE;
- The Company's Normalised EBITDA was $5.8 million in 2016 or $12.10 per gross barrel of oil sold as compared to $14.5 million or $22.17 per gross barrel of oil sold for 2015.

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 Company's risk management activities and internal control processes. As a participant in the oil and gas exploration and production industry, Nighthawk 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. 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. The Directors and senior management have significant experience and continually take steps to mitigate and review risks where 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.

Financial risks

- Oil price movements
- Failure to obtain extension of the CBA facility and secure alternative financing
- 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 commercially viable hydrocarbons from drilling endeavours
- Production decline
- Exploration, appraisal or development well failures
- Failure of water flood Pilot Project
- The Company'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
- 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 federal industry regulations
- Availability of drilling and production equipment

Strategic, industry and external risks

- Availability of capital to fund future projects
- A 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 extension of the RBL facility–as previously discussed, the Company continues to be in negotiations with its secured lender, Commonwealth Bank of Australia ("CBA"). The existing facility, as amended, is to expire on 30 June 2017. Failure to obtain an extension this facility, and subsequently secure alternative funding, would materially impair the Company's ability to execute on the future plans for development and would result in events of default under the loan agreement. The Company 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 Company's exposure to fluctuating oil prices and to protect its future cash flow. Currently, 161,350 bbls of the Company's 2017 production is hedged at a weighted average minimum price of $51.66.

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 to keep it simple and perform low-cost vertical drilling. This limits the average estimated cost of a dry-hole to approximately $600,000-$750,000.

Inability to produce hydrocarbons–The area of the Denver-Julesburg basin in which the Company 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 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 of water flood Pilot Project–Company has commenced operations of its water flood Pilot Project. As the only project the Company currently has active to provide reserve replacement, failure of the Pilot Project to produce expected volumes could have a negative effect on the Company's reserve value.

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.

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

The Company's primary operational centre is in Denver, Colorado, USA. At the date of this report, the Company employs or contracts 16 full time people in Colorado, comprised of 3 females and 14 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 Company 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	8	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 Company'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 Company has procedures in place for dealing with, and reporting on, incidents such as spillages or lost time injuries.

Social Responsibility

The Company's Colorado operations are in a sparsely populated area where the primary occupation is in farming and ranching. The Company through its operational team maintains good relations with those landowners from whom it has leased land. Where production is established, the Company 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 Company's operations.

On behalf of the Board of Directors

Rick McCullough
26 May 2017

Directors' Report
for the year ended 31 December 2016

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2016.

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 2016 and 2015.

	31 December 2016		31 December 2015	
	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 J Claesson [1]	159,365,297	-	159,365,297	-
Mr S Eaton	1,466,500	2,000,000	1,466,500	2,000,000

Note:

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 33 in the Notes to the Consolidated Financial Statements.

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

Retirement and re-election of Directors

Messrs. Eaton and McCullough 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 2016, there were 964,076,330 ordinary shares of 0.25p each issued and fully paid. Each ordinary share carries one vote. During the period, the Company issued no additional new ordinary shares. Additionally, at 31 December 2016, there are share options, warrants, convertible loan notes and options to convert deferred interest that, if exercised or converted, would require up to a further 911,066,081 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 2016. No dividend was paid for the year ended 31 December 2015.

Substantial shareholders

As at 31 March 2017, 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	10.4%
Hargreaves Lansdown Asset Mgt	88,800,234	9.2%
TD Direct Investing Nominees (Europe) Limited, a/c SMKTNOMS	79,996,879	8.2%
Barclayshare Nominees Limited	68,467,525	7.1%
Halifax Share Dealing	50,588,791	5.3%

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 Peter Gyllenhammar 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 Company employed 13 people and contracted three persons' full time at 31 December 2016. At 31 December 2015, the Company had 16 employees. The Company also contracts consultants on certain projects and in certain operational areas such as geoscience, work overs and land management.

Future development of the Company's business

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

Financial Risk Management and Objectives

See "Financial Risk Management and Objectives" included at page 11 of this Annual Report and Consolidated Financial Statements.

Subsequent Events

As disclosed in Note 37 to the Consolidated Financial Statements and Note 9 to the Parent Company Financial Statements, the Company obtained approval from shareholders to waive Rule 9 of the City Code to allow for the potential conversion of deferred interest into ordinary shares.

Auditors

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

Directors' Report (continued)
for the year ended 31 December 2016

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 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 and Company's ability to continue as a going concern, the Directors have assessed whether the Group and Company 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 and Company are meeting its day-to-day operational working capital requirements and oil prices have stabilized. 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 and debt service costs. However, following the amendment to the existing credit facility which changed to maturity date to 30 June 2017, the Company's ability to meet its obligations as they fall due is dependent upon the Company's ability to extend its RBL with CBA whilst securing alternative funding. Based on the discussions with CBA and previous extensions the Board remain confident that necessary extensions can be secured whilst the debt is refinanced. The Company has held discussions with potential alternative lenders and are confident that the requisite funding can be secured on acceptable terms. Whilst the ability to secure alternative funding is expected to depend on the success of the waterflood Pilot Project and associated reserves upgrade, the Board remains confident that the Pilot Project will deliver the required level of production and PDP reserves based on its status. These circumstances, together with the unknown outcome of the water flood Pilot Project, are considered to create a material uncertainty which creates doubt about the Company'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 23 June 2017 as stated in the Notice of Meeting, which accompanies this Annual Report.

On behalf of the Board of Directors

Rick McCullough
Executive Chairman

26 May 2017

Remuneration Report
for the year ended 31 December 2016

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 2016:

	For the year ended 31 December 2016				2015
	Basic salary/fees	Pension contribution	Benefits in kind	Total	Total
Mr R McCullough	$ 265,005	$ -	$ -	$ 265,005	$ 320,572
Mr C Wilson	$ 377,440	$ 14,341	$ 16,120	$ 407,901	$ 417,619
Mr R Swindells[1]	$ -	$ -	$ -	$ -	$ 460,062
Mr J Claesson	$ 40,333	$ -	$ -	$ 40,333	$ 45,763
Mr S Eaton	$ 43,022	$ -	$ 5,474	$ 48,496	$ 58,444

Note:

1. 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 Company incurred non-cash share based payment charges of $47,455 during 2016 and $153,213 for the year ended 31 December 2015, 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, employment contracts 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 Company 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. No options over ordinary shares were exercised during 2016 and 6,600,000 expired. Options over 1,700,000 ordinary shares were exercised during the period ended 31 December 2015 and options over 5,300,000 ordinary shares expired during the period. 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.

Remuneration Report (continued)
for the year ended 31 December 2016

The following share options table comprises share options and share awards held by Directors who held office during the year ended 31 December 2016:

	Options held at 1 January 2016	Options granted in period	Options exercised in period	Options lapsed in period	Options held at 31 December 2016	Exercise price (p)	Exercisable from	Exercisable to
Mr R McCullough	2,000,000	-	-	-	2,000,000	0.25	*See note 3 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 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 Company achieving a gross average production over a continuous 90 day period of 350 barrels of oil per day. This production level was achieved in prior years and accordingly, these shares are vested. The shares under option are exercisable from 20 May 2013 to 23 January 2022. At the same time, 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. As the vesting terms of these options have not been achieved, nil shares are vested and exercisable. Accordingly, the remaining 70 per cent of these shares under option have a term from 20 May 2013 to 23 January 2022.
2. Previously, 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. As the terms of this grant had not been achieve by the end of the term of the grant, 19 July 2015, the Remuneration Committee extended the term of the options by 2 years during 2015 to 19 July 2017.
3. 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, which he has met.

Johan Claesson
Chairman of the Remuneration Committee

26 May 2017

Corporate Governance
for the year ended 31 December 2016

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 Company'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 regularly throughout the 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 Company's long term objectives, policies and budgets, changes relating to the Company's management structure, approval of the Company'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 Company'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 Company, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the Company'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 Company of financial information and other audit related issues. The Audit Committee meets at least twice a year.

Corporate Governance (continued)
for the year ended 31 December 2016

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 Company 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 Company. 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 once a year or as needed.

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 Company'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 once a year or as needed.

Attendance

Attendance records for Directors who served during the year ended 31 December 2016 are set out below.

	Board		Remuneration Committee		Audit Committee		Nomination Committee	
	Meetings	Attended	Meetings	Attended	Meetings	Attended	Meetings	Attended
Mr R McCullough	10	10	1	1	2	2	0	0
Mr C Wilson	10	10	NA	NA	NA	NA	NA	NA
Mr J Claesson	10	10	1	1	NA	NA	0	0
Mr S Eaton	10	10	1	1	2	2	0	0

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 Chief Financial Officer is also in 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 Company'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 Company; preparation, adoption and monitoring of a comprehensive annual budget for the Company; maintaining appropriate treasury management policies; maintaining policies for major business risks faced by the Company 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 Company will therefore be subject to regular review by the Board in the light of the future development of the Company.

By order of the Board of Directors

Kurtis Hooley
Company Secretary

26 May 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the strategic report, directors report 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 group 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 Group and of the Parent Company 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 Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company 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 Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

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 2016 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 Statement 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 (IFRS's) as adopted by the European Union. The financial reporting framework that has been applied in their preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 101 Reduced Disclosure Framework ("United Kingdom Generally Accepted Accounting Practice").

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 2016 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 United Kingdom Generally Accepted Accounting Practice ; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's Report (continued)

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 and Company's ability to continue as a going concern. The Group's and Company's cash flow forecasts indicate that its ability to meet its liabilities as they fall due for next 12 months is dependent upon successfully extending the Commonwealth Bank of Australia ('CBA') existing loan facility which matures on 30 June 2017 on terms acceptable to the Company whilst alternative funding is secured. The ability to secure alternative funding is expected to depend on the success of the waterflood project and associated oil reserves upgrade. Whilst the Directors are confident that extensions to the CBA loan facility can be obtained, that alternative funding can be secured and that the waterflood project will prove successful and deliver the necessary increase in oil reserves, the outcomes of these negotiations and the waterflood project are unknown.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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
26 May 2017

Consolidated Income Statement
all amounts are shown in US$

	Notes	For the Year Ended 31 December 2016	2015
Continuing operations:			
Revenue	4	$18,023,333	$ 29,608,915
Cost of sales		(10,061,023)	(14,866,589)
Gross profit		7,962,310	14,742,326
Administrative expenses		(5,791,991)	(7,541,390)
Exceptional administrative expenses	9	(6,797,041)	(72,477,603)
Total administrative expenses		(12,589,032)	(80,018,993)
Operating loss	5	(4,626,722)	(65,276,667)
Finance income		582	173,641
Finance costs	8	(8,172,019)	(5,078,442)
Loss before taxation		(12,798,159)	(70,181,468)
Taxation	10	(1,419,971)	(150,668)
Net loss		$(14,218,130)	$(70,332,136)
Attributable to:			
Equity shareholders of the Company		$(14,218,130)	$(70,332,136)
Loss per share from continuing operations	11		
Basic loss per share		$(0.01)	$(0.07)
Diluted loss per share		$(0.01)	$(0.07)

Consolidated Statement of Comprehensive Income and Expenditure

all amounts are shown in US$

	For the Year Ended 31 December	
	2016	2015
Net loss	$(14,218,130)	$(70,332,136)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange gains on consolidation	4,438,314	1,247,495
(Loss)/Gain on hedging instruments designated as cash flow hedges	(311,695)	6,304,905
Deferred tax on hedging instruments designated as cash flow hedges	110,968	(2,244,635)
Items reclassified to profit or loss:		
Loss on hedging instruments designated as cash flow hedges	(3,686,396)	(7,837,223)
Deferred tax	1,312,409	2,790,161
Other comprehensive income, net of tax	1,863,600	260,703
Total comprehensive loss for the financial year	$(12,354,530)	$(70,071,433)

Consolidated Balance Sheet
all amounts are shown in US$

	Notes	As at 31 December 2016	2015
Assets			
Non-current assets			
Property, plant and equipment	13	$ 22,704,185	$ 25,428,745
Intangible assets	12	8,274,560	11,891,746
Derivative financial assets	17	-	502,648
		30,978,745	37,823,139
Current assets			
Inventory	15	785,904	917,039
Derivative financial assets	17	329,702	3,997,996
Trade and other receivables	16	2,353,503	3,013,846
Cash and cash equivalents		5,569,041	5,969,485
		9,038,150	13,898,366
Total Assets		$40,016,895	$ 51,721,505
Equity and liabilities			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	20	$ 4,007,795	$ 4,007,795
Share premium	20	1,402,644	1,402,644
Foreign exchange translation reserve	21	12,151,619	7,713,305
Special (restricted) reserve	22	29,760,145	29,760,145
Retained deficit		(79,611,117)	(65,650,773)
Share-based payment reserve	23	5,157,045	5,367,376
Equity option on convertible loans	24	6,992,276	6,992,276
Cash flow hedging reserve	25	212,324	2,787,038
Total equity		(19,927,269)	(7,620,194)
Current liabilities			
Trade and other payables	18	5,174,900	5,059,434
Finance lease payables	32	622,563	-
Derivative financial liabilities		628,099	-
Borrowings	19	23,139,502	26,311,365
		29,565,064	31,370,799
Non-current liabilities			
Borrowings	19	27,402,697	24,776,368
Finance lease payables	32	166,592	-
Provisions and contingent consideration	30	2,809,811	3,194,532
		30,379,100	27,970,900
Total liabilities		59,944,164	59,341,699
Total equity and liabilities		$ 40,016,895	$ 51,721,505

The financial statements were approved by the Board of Directors on 26 May 2017 and were signed on its behalf by:

Rick McCullough,
Executive Chairman

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016 *(all amounts are shown in US$)*

	Share capital $	Share premium $	Foreign exchange translation reserve $	Special (restricted) reserve $	Retained deficit $	Share based payment reserve $	Equity option on convertible loans $	Cash flow hedging reserve $	Total $
Balance at 1 January 2016	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)
For the year ended 31 December 2015									
Loss for the year	-	-	-	-	(14,218,130)	-	-	-	(14,218,130)
Other comprehensive income (expense):									
Foreign exchange gain on consolidation	-	-	4,438,314	-	-	-	-	-	4,438,314
Loss on hedging instruments designated in cash flow hedges	-	-	-	-	-	-	-	(311,695)	(311,695)
Deferred tax on hedging instruments designated in cash flow hedges	-	-	-	-	-	-	-	110,968	110,968
Gain reclassified to profit or loss	-	-	-	-	-	-	-	(3,686,396)	(3,686,396)
Deferred tax on gain reclassified to profit	-	-	-	-	-	-	-	1,312,409	1,312,409
Total comprehensive income (loss)	-	-	4,438,314	-	(14,218,130)	-	-	(2,574,714)	(12,354,530)
Share-based payments	-	-	-	-	-	47,455	-	-	47,455
Exercised and expired options and warrants	-	-	-	-	257,786	(257,786)	-	-	-
Balance at 31 December 2016	**4,007,795**	**1,402,644**	**12,151,619**	**29,760,145**	**(79,611,117)**	**5,157,045**	**6,992,276**	**212,324**	**(19,927,269)**
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)

Consolidated Cash Flow Statement

all amounts are shown in US$

	Notes	For the Year Ended 31 December 2016	2015
Net cash flow from operating activities	26	$ 6,821,144	$ 16,663,460
Cash flow from investing activities			
Purchase of intangible assets		(1,083,530)	(15,197,473)
Purchase of property, plant and equipment		(2,417,206)	(11,251,875)
Proceeds on disposal of property, plant and equipment		5,500	8,410
Interest received		582	355
Net cash from investing activities		(3,494,654)	(26,440,583)
Cash flow from financing activities			
Proceeds on issue of new shares		-	130,137
Proceeds from derivative financial instruments		56,525	-
Repayment of loans		(4,000,000)	(3,000,000)
Proceeds on issue of loans net of issue costs		3,000,000	7,000,000
Proceeds on issue of convertible loan notes		-	9,710,000
Capital payments on finance leases		(129,423)	--
Interest on finance leases		(21,477)	-
Interest paid		(2,289,665)	(3,102,589)
Net cash flow from financing activities		(3,384,040)	10,737,548
Net (decrease) increase in cash and cash equivalents		(57,550)	960,425
Cash and cash equivalents at beginning of financial year		5,969,485	5,019,527
Effects of exchange rate changes		(342,894)	(10,467)
Cash and cash equivalents at end of financial year		$ 5,569,041	$ 5,969,485

Notes to the Consolidated Financial Statements
Year ended 31 December 2016 *(all amounts are shown in US$)*

1. General Information

Nighthawk Energy PLC (the "Parent") is a company incorporated in England and Wales, 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 the exploration for, development and sale of, hydrocarbons. The Company operates solely in the state of Colorado USA where it currently owns interests in over 150,000 net mineral acres in and around Lincoln County.

The accompanying financial statements cover the year to 31 December 2016 for the Parent and its subsidiaries (the "Company" or "Nighthawk").

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 Company 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 except for derivatives and certain royalty instruments. 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.

Going Concern
The Directors have reviewed cash forecasts, the current operations of the Group and Company 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 however, there is a material uncertainty related to events or conditions that may cast significant doubt about the ability of the Group and Company to continue as a going concern. Currently, the Group and Company is meeting its day-to-day operational working capital requirements and oil prices have stabilized. 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 and debt service costs. However, the Directors note there is a material liquidity risk related to the outstanding loan with Commonwealth Bank of Australia ("CBA") given the 30 June 2017 maturity date. The Group's and Company's ability to meet its liabilities as they fall due for next 12 months is dependent upon successfully extending the existing loan facility on terms acceptable to the Group whilst securing alternative funding.

Based on the discussions with CBA and previous extensions, the Board remains confident that necessary extensions can be secured whilst the debt is refinanced. The Board has held discussions with potential alternative lenders and are confident that the requisite funding can be secured on acceptable terms. Whilst the ability to secure alternative funding is expected to depend on the success of the waterflood project and associated oil reserves upgrade, the Board remains confident that the project will deliver the required level of production and PDP reserves based on its status.

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

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 Company as if they formed a single entity. Intercompany transactions and balances between companies are therefore eliminated in full.

2. Significant accounting policies (continued)

Intracompany transactions with subsidiaries are eliminated on consolidation. Transactions, balances, income and expenses with Joint Operations are eliminated to the extent of the Company'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 Company has only one operating segment: the production of, exploration for and investment in hydrocarbons in one geographical area, the United States of America.

Significant Customer
The Company sell all its oil production to an independent third party. The Company has alternative buyers available in the event the existing agreement is discontinued.

New and amended IFRS standards in interpretations
The following new or revised Standards and Interpretations have been adopted during the year.

	New/Revised International Financial Reporting Standards	Effective Date: Annual periods beginning on or after:	EU adopted
IAS 1	Disclosure Initiative – Amendments	1 January 2016	Yes
	Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	Yes

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 Company are not included):

	New/Revised International Financial Reporting Standards	Effective Date: Annual periods beginning on or after:	EU adopted
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018	Yes
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Yes
IFRS 16	Leases	1 January 2019	No

IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognize revenue and how much revenue to recognize. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management are currently assessing the impact of this standard.

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognize all lease assets and liabilities on the balance sheet; recognize amortization of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. Management are currently assessing the impact of this standard.

2. Significant accounting policies (continued)

IFRS 9 "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. Management are currently assessing the standard's full impact.

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

The Company 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 Company's interests in unincorporated Joint Operations are given in Note 14.

Revenues
Oil revenue represents the sales value of the Company oil production during the year and is recognised when sales transactions can be reasonably measured and the risks and rewards of ownership have transferred substantially to the buyer, which occurs at transfer of the hydrocarbons from the Company's facilities to the purchaser's tanker or infrastructure. Revenue is measured at the Company'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 Company 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 development is in progress or planned. If no future exploration or development activity is planned in the leased area, the exploration licence and leasehold property acquisition costs are written off. Pre-leasing 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
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 license 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.

2. Significant accounting policies (continued)

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 Company 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%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

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 at least twice a year or 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. 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 combined 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.

2. Significant accounting policies (continued)

Impairment of Exploration costs
The Company'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 Company firstly considers the following facts and circumstances in their assessment of whether the Company's exploration and appraisal assets may be impaired:

- Whether the period for which the Company 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 Company 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 Company, 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.

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 Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

2. Significant accounting policies (continued)

Contingent consideration
The Company was 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 Company acquired operatorship of the joint operation and increased its interest from 50% to 75%. The Company 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. As the contingent consideration provision has expired in January 2017, no amounts are included on the accompanying balance sheet as at 31 December 2016.

Equipment leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The interest element of finance lease payments is charged to profit or loss as finance costs over the period of the lease. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign Currency
For the purpose of the consolidated financial statements, the results and financial position of each company are expressed in US Dollars, which is the reporting currency for the consolidated financial statements. The functional currency of the Company's subsidiaries is US Dollars. Foreign currency transactions, by company, 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 Company'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 Company 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.

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.

2. Significant accounting policies (continued)

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 rate that is 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 Company 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 Company 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 Company 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 associated 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 Company's strategy. In such circumstances the royalty is recorded on an accrual basis as production arises. Where royalties are issued in conjunction with debt financing, the initial fair value is treated as a transaction cost and deducted from the loan liability and subsequently amortised through the effective interest rate. The royalty liability is subsequently revalued.

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

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.

2. Significant accounting policies (continued)

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 Company 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 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 value of the debt and equity component at the time of 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 Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 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 payment is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimated number of 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
Provisions are 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 Company'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 Company'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 Company's accounting policies, and that have the most significant effect on the amounts recognised in the financial statements.

Exploration and Evaluation Costs
The Company'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, should it become apparent that recovery of the expenditure is unlikely following initial capitalisation, 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 Company 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 Company plans to continue substantive expenditure on the assets. In determining whether substantive expenditure remains in the Company's plan, management considers factors including future oil prices, plans for lease renewal and development and future drilling plans. If impairment indicators exist, the assets are then 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 Company'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.

3. Critical accounting judgements and estimates (continued)

The assessment of impairment indicators requires the exercise of judgement. If an impairment indicator exists, then the recoverable amount of the cash-generating unit and/or individual asset is determined based on the higher of value-in-use and fair value less cost of disposal calculations. This requires 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.

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, based on external 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 Company has recorded an impairment of $7.1 million in 2016 as compared to $75.1 million in 2015, 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 $nil million. An increase in the discount rate to 15% would increase impairment by $nil million. 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 Company's properties. In order to calculate the reserves, estimates and assumptions are required for 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 and 3D seismic. 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.

3. Critical accounting judgements and estimates (continued)

Changes in reported reserves may affect the Company'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 unit of production basis, or where the useful economic life of asset changes.

- Provisions for plugging and abandoning a well may change as a result of revisions to the timing of such plugging and abandonment efforts.

Judgments associated with debt finance
During the year, the Company obtained a new loan as detailed in Note 19 and modifications to existing instruments. The accounting requires judgments and estimates which are set out in the note including the valuation of the royalty associated with the new loan and assessments as to the valuation of conversion rights associated with the modified debt.

Derivative valuations
The Company'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 Company and counterparty which are determined based on credit spreads applicable to the Company and the counterparty. Refer to Note 17 for details.

4. Revenue

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

	2016	2015
Continuing operations		
Sales revenue	$ 15,027,487	$ 21,729,188
Gains on hedging instruments reclassified from equity to profit or loss	3,686,396	7,837,223
Mark-to-market losses on hedging instruments	(744,424)	-
Other income	53,874	42,504
	$ 18,023,333	$ 29,608,915

5. Operating loss

The operating loss before taxation for the years has been arrived at after charging:

	2016	2015
Depreciation	$ 3,673,404	$ 6,711,917
Amortisation and contribution to match test revenue	4,372	573,220
Equity settled share-based payments	47,455	251,666
Production profit share expense	325,835	321,030

6. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2016	2015
Fees payable to the Company's auditors for the audit of the annual financial statements	$ 116,384	$ 132,140
Fees payable to the Company's auditor and their associates for other services to the Company:		
Tax legislative assistance	16,496	21,890
Tax advice and other advisory	8,603	10,607
	$ 141,483	$ 164,637

7. Staff Costs

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

	2016	2015
Staff costs		
Wages and salaries	$2,758,440	$ 4,063,190
Social security costs	116,146	189,819
Pension costs	256,312	383,507
	3,130,898	4,636,516
Equity settled share-based payments	47,455	251,666
	$ 3,178,353	$ 4,888,182

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

	2016	2015
United Kingdom	1	2
United States	12	14
	13	16

	2016	2015
Remuneration of Directors		
Emoluments for qualifying services	$ 725,799	$ 1,157,622
Company pension contributions and benefits	14,341	94,974
Social security costs	21,595	49,865
	$ 761,735	$ 1,302,460

The number of Directors during 2016, accruing benefits under money purchase pension scheme arrangements was one in 2016 as compared to two during 2015.

During the year no Directors exercised any share options.

7. Staff Costs (continued)

During 2015 Steve Gutteridge, who retired from the Board of Directors on 30 September 2014, exercised share options to acquire 1,700,000 ordinary shares.

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

	2016	2015
Highest paid director		
Remuneration	$ 377,440	$ 369,600
Company pension contributions and benefits	30,461	48,019
	$ 407,901	$ 417,619

8. Finance Costs

	2016	2015
Imputed interest on convertible loan notes	$ 2,013,122	$ 1,571,189
Interest on shareholder loan issued with warrants	1,639,569	1,584,916
Interest on bank loan	1,390,993	1,508,528
Interest on shareholder loan	277,241	
Finance lease interest	21,477	-
Total interest expense	5,342,402	4,664,633
Loss on rescheduling of loans	709,720	-
Exchange losses on financial liabilities	1,790,208	384,928
Other	329,689	28,881
	$ 8,172,019	$ 5,078,442

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

9. Exceptional administrative expenses

	2016	2015
Exceptional Administrative Expenses:		
Impairment of exploration and production assets	$ 7,130,541	$ 75,144,103
Release of contingent consideration provision	(333,500)	(2,666,500)
	$ 6,797,041	$ 72,477,603

The Company assessed the recoverability of its undeveloped exploration 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 continued depressed oil prices, and with no plans to pursue an aggressive drilling program, $7.1 million, was written off as at 31 December 2016 as compared to $40.5 million as at 31 December 2015. No other impairment were made for 2016.

During 2015, the Company 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 was taken to the income statement and represented an impairment of certain wells which mainly arose from a reduction in the spot and forward oil price assumptions used in estimating the future discounted cash flows for each well.

Of the total 2015 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.

During 2016, the Company released $333,500 of the contingent consideration provision as compared to $2.7 million during 2015. Refer to Note 30.

10. Taxation

The Parent Company is subject to taxation in the United Kingdom at an estimated rate of 20% for 2016 and 20.25% in 2015, and the Company's subsidiaries are subject to taxation in the United States at an estimated rate of 38.00% for 2016 and 2015.

As of 31 December 2016, there was a current tax credit of $Nil arising in the US in the financial year (2015: $394,858 current tax credit). No tax charge arose in the UK for either 2016 or 2015.

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 losses for the year are as follows:

Reconciliation of the effective tax charge:	2016	2015
Loss before taxation	$ (12,798,159)	$ (70,181,468)
Current tax (credit) expense:		
Loss before taxation multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(2,559,632)	$ (14,242,255)
Tax effects of:		
Other expenses not deductible for tax purposes	1,246	55,310
Different tax rates applied in overseas jurisdictions	(1,045,250)	(8,959,430)
Effect of tax rate change	(1,355,415)	404,959
Adjustments related to prior year	(2,270,286)	-
Unrecognised tax losses	6,506,922	22,346,558
Other	722,415	-
Current tax credit	-	(394,858)
Deferred tax expense (credit):		
Tax losses recognised (utilised) during the year related to hedging	1,419,971	545,526
Tax in income statement and effective tax rate	$1,419,971	$ 150,668
Amounts recorded in other comprehensive income (loss):		
Deferred tax on hedging instruments designated in cash flow hedges	$ 110,968	$ 2,244,635
Deferred tax on gain reclassified to income statement for cash flow hedging instruments	1,312,409	(2,790,161)
Deferred tax on hedging from rate change	(3,406)	-
Total	$1,419,971	$545,526

	2016	2015
Deferred tax		
Deferred tax liabilities:		
Accelerated tax deductions	$ -	$ -
Fair value of derivatives	(122,187)	(1,540,756)
Deferred tax assets:		
Accelerated book deductions	4,235,400	1,062,144
Intercompany interest	1,522,180	478,612
Loss carry forward	62,606,562	57,553,740
Deferred tax not recognized	(68,241,955)	(57,553,740)
Net deferred tax	$ -	$ -

10. Taxation (continued)

No deferred tax asset has been recognised at 31 December 2016 and 2015, for the net federal tax operating loss carry forwards of $172.1 million and $163.6 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 Company'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 $13.2 million at 31 December 2016 and $20.4 million at 31 December 2015 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.

	2016	2015
Basic loss per share		
Loss per share from continuing operations	$ (0.01)	$ (0.07)
Diluted loss per share		
Loss per share from continuing operations	$ (0.01)	$ (0.07)

The Company has 911,066,081 potentially dilutive shares in issue, in respect of options to acquire 38,750,000 shares of the Company, warrants to acquire 130,000,000 shares of the Company, loan conversion rights to acquire 477,033,333 shares of the Company and deferred interest conversion rights to acquire 265,282,748 shares of the Company. Due to the Company'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:

	2016	2015
Net loss used in the calculation of total basic and diluted loss per share from continuing operations	$ (14,218,130)	$ (70,332,136)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic net loss per share	964,076,330	963,629,481
Dilutive effect of options, conversion shares and warrants	-	-
Weighted average number of ordinary shares for the purposes of diluted net loss per share	964,076,330	963,629,481

12. Intangible Assets

	Exploration costs	Royalty interests	Total
Cost			
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
Additions	5,321,691	-	5,321,691
Transfers (note 13)	(867,517)	-	(867,517)
At 31 December 2016	$110,378,009	$ 359,391	$110,737,400
Amortisation and impairment			
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
Charge	-	4,372	4,372
Transfers (note 13)	954,882	-	954,882
Impairment	7,112,106	-	7,112,106
At 31 December 2016	$102,418,269	$ 44,571	$102,462,840
Net book value			
At 31 December 2016	$ 7,959,740	$ 314,820	$ 8,274,560
At 31 December 2015	$ 11,572,554	$ 319,192	$ 11,891,746
At 31 December 2014	$ 51,070,024	$ 322,892	$ 51,392,916

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 expiring leases, future development plans for the leases, abandoned leases/wells and the estimated fair value less cost to sell of the underlying assets.

Due to these indicators being present at 31 December 2016 and 2015, and the resultant impairment test, impairments were recorded in the 2016 and 2015 financial year. Consequentially, certain full and partial impairments, as appropriate, of the remaining values were recognised, as disclosed in Note 9.

13. Property, Plant and Equipment

	Leasehold	Plant and equipment	Office equipment	Leased equipment	Production assets	Total
Cost						
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
Additions	1,389,739	1,114,052	-	918,578	-	3,422,369
Transfers (note 12)	-	-	-	-	867,517	867,517
Foreign exchange variance	-	-	(212)	-	-	(212)
At 31 December 2016	$46,752,450	$27,981,509	$241,592	$918,578	$46,665,957	$122,560,086
Accumulated Depreciation						
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
Charge	4,119,481	1,467,217	77,467	138,695	2,147,851	7,950,711
Impairment		18,435				18,435
Transfers (note 12)	(954,882)					(954,882)
Foreign exchange variance	-	-	(30)	-	-	(30)
At 31 December 2016	$44,762,216	$16,302,421	$175,186	$138,695	$38,477,383	$99,855,901
Net book value						
At 31 December 2016	$1,990,234	$11,679,088	$66,406	$779,883	$8,188,574	$22,704,185
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

Impairments during the 2015 financial year 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 Company 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 Company determines the recoverable amount for individual assets on a well-by-well basis.

For the year ended 31 December 2016, depreciation charges of $4,083,814 and $193,531 relating to leasehold land and plant and equipment, respectively, have been capitalised within intangible assets additions. For the year ended 31 December 2015, depreciation charges of $5.3 million have been capitalised within intangible assets additions.

14. Investment in Jointly Controlled Operations

As at 31 December 2016, the Company was involved in a joint development agreement ("JDA") with an unrelated third party. The El Dorado Joint Development area covers 40,372 net mineral acres around the Company's existing acreage. As the owner of a 15% working interest, the Company has the right, but is not obligated, to participate in the drilling of any well in the Joint Development area.

As at 31 December 2015, the Company also was involved in a second JDA. The Monarch Joint Development area is operated by the Company, 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 Company 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 to produce a minimal amount of crude oil, rendering it uneconomic. All of the costs to drill the four wells were impaired at 31 December 2015. In addition, the Company was to bear 100% of the costs to drill two additional wells on or before 30 June 2016, with estimated dry hole costs of $0.60 million per well, and completed well costs of $0.6 million per well. During 2016, the Company renegotiated the JDA with its partner whereby Nighthawk would: 1) make a payment to JDA partner of US$500,000; 2) Nighthawk would complete an up-hole zone in the Monarch 10-15 well, at the Company's expense; 3)Nighthawk would assign an increased revenue share from the Monarch 10-15 well and a 2% net overriding revenue interest in the land section surrounding the Monarch 10-15 wellbore; and 4) in exchange for the above consideration, the Company received from the JDA partner, an assignment of their working interest in all remaining acreage in the JDA.

During 2015, a 3D seismic program over the entire area was completed, covering both the Monarch and El Dorado Joint Development acreage. By the terms of the JDA, the Company 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

	2016	2015
Oil in tanks	$ 147,379	$ 172,071
Spares, consumables and equipment	638,525	744,968
	$ 785,904	$ 917,039

Inventory includes oil held in tanks at year end in addition to 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

	2016	2015
Trade receivables	$ 1,380,442	$ 1,122,195
Commodity derivative settlements from financial institutions	121,802	797,256
Other receivables	373,266	346,892
Prepayments	477,993	526,503
Income tax receivable	-	221,000
	$ 2,353,503	$ 3,013,846

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

17. Derivative Financial Assets and Liabilities

	2016	2015
Derivatives designated and effective as hedging instruments		
—Oil price swaps and costless collars	$ 329,702	$ 4,327,794
Derivatives that are not designated in hedge accounting		
— Oil price swaps	(628,099)	172,850
Total	$ (298,397)	$ 4,500,644
Current	$ (298,397)	$ 3,997,996
Non-current	-	502,648
Total	$ (298,397)	$ 4,500,644

18. Trade and Other Payables

	2016	2015
Trade payables	$ 942,225	$ 916,903
Royalty payables	742,736	62,130
Accrued expenses	3,489,939	4,080,401
	$ 5,174,900	$ 5,059,434

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	Total
Date of issue	January 2012	June 2013	July 2013	September 2014	August 2015	July 2016	
Effective interest rate	12%	12%	12%	5%	12%	15%	
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
Foreign exchange variance	(763,793)	(690,738)	(40,040)	-	(1,065,814)	(123,704)	(2,684,089)
Issue of loans	-	-	-	-	-	3,000,000	3,000,000
Royalty interest recognised separately	-	-	-	-	-	(602,425)	(602,425)
Repayment of loan capital	-	-	-	(4,000,000)	-	-	(4,000,000)
Loss on rearrangement of loan	-	-	-	709,720	-	-	709,720
Interest expense	761,215	454,200	1,604,210	1,390,993	785,755	277,241	5,273,614
Interest paid	-	(189,144)	(747,945)	(1,272,576)	-	(80,000)	(2,289,665)
Interest on deferral of interest payment	-	11,952	35,359	-	-	-	47,311
Borrowings at 31 December 2016	$4,295,910	$3,912,349	$10,711,597	$23,139,502	$6,011,729	$2,471,112	$50,542,199

Except for loan D, as at 31 December 2016, all loan maturities are greater than one year and the loans are classified as non-current in the Consolidated Balance Sheet.

19. Borrowings (continued)

At 31 December 2016, the loans and borrowings include $0.7 million of unamortised transaction costs held as a reduction in the carrying value of the loans and borrowings. At 31 December 2015, the loans and borrowings include $2.4 million 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. 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 2016, the loan is convertible into 206,700,000 shares of the Company.

   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 was considered to represent a transaction cost for new convertible loan notes and the portion attributable to the liability was 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.

B. 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 2016, the loan is convertible into 57,000,000 shares of the Company. As part of the negotiations for the extension of Note D in June 2016, the loan note holders agreed to defer interest payments until July 2017. The deferred interest amount will accrue interest at 15%. At the end of the deferral period, the loan note holders may, at their option, convert the deferred interest amount into shares of the Company at 1.0 pence, or received the deferred interest plus accrued interest in cash. The fair value of the conversion right was assessed and determined to be immaterial.

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

C. 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 equal to 1% of the Company'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 Company sells the wells subject to 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 was 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.

As part of the negotiations for the extension of Note D in June 2016, the loan note holders agreed to defer interest payments until July 2017. The deferred interest amount will accrue interest at 15%. At the end of the deferral period, the loan note holders may, at their option, convert the deferred interest amount into shares of the Company at 1.0 pence, or received the deferred interest plus accrued interest in cash. The fair value of the conversion right was assessed and determined to be immaterial.

D. On 26 September 2014, the Company entered into a $100 million senior secured credit facility ("Facility') with Commonwealth Bank of Australia ("Bank"). The Facility contained both a four year Revolving Credit Facility and a Letter of Credit Facility. Interest was historically 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 2016 was $23 million as compared to $27.0 million at 31 December 2015. Transaction costs of $1.1 million were deducted from the carrying value of the loan at the origination date and were amortised through the effective interest rate. As of 31 December 2015, the Company was not in compliance with certain of the loans covenants and provisions. The Company obtained covenant waivers through 10 June 2016. Effective 30 June 2016, the Company reached an agreement with CBA which, among other items, set the maturity date as 30 June 2017 and changed the interest rate to 6.0% over US Libor. As part of this modification, unamortized debt costs of $0.7 million were written off. Due to the maturity date, the Facility has been recorded as a currently liability on the accompanying financial statements. Management believes that a mutually beneficial agreement can be reached with CBA prior to the maturity date.

19. Borrowings (continued)

E. 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, $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 2016 (and 31 December 2015), the loan is convertible into 213,333,333 shares of the Company.

F. On 28 July 2016, the Company issued a $3.0 million secured loan note at 15% p.a. interest and matures 30 April 2019. The loan note included a royalty payment equalling to 1% of the Company's net revenue interest in two specific well bores for the life of the wells. 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 2016 is $654,413.

Not included in the above table was a loan issued January 2014 at 9% p.a. interest with a royalty payment equalling to 3% of the Company'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 2016 is $88,323. At 31 December 2015, the fair value was $62,130.

Notes A, B, C, E and F include holdings by related parties. See Note 33 for details.

20. Share Capital and Premium

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

Year ended December 2016	# of Shares	Share Capital and Premium
At beginning of the year	964,076,330	$ 5,410,439
At end of the year	964,076,330	$ 5,410,439

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

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 Company'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 as 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.

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

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

	Number of options	Exercise price range £	Number of warrants	WAEP £
Outstanding at the beginning of the year	45,350,000	0.025-0.1275	130,000,000	0.054938
Exercised	-	-	-	-
Expired	(6,600,000)	0.0624-0.12	130,000,000	0.054938
Outstanding at the year end	38,750,000	0.025-0.1275	130,000,000	0.054938
Number vested and exercisable at end of year	36,050,000	0.025-0.1275	130,000,000	0.054938

2015

	Number of options	Exercise price range £	Number of warrants	WAEP £
Outstanding at the beginning of the year	52,350,000	0.025-0.1275	130,000,000	0.054938
Exercised	(1,700,000)	0.0500	-	-
Expired	(5,300,000)	0.0624-0.1200	-	-
Outstanding at the year end	45,350,000	0.025-0.1275	130,000,000	0.054938
Number vested and exercisable at end of year	42,650,000	0.025-0.1200	130,000,000	0.054938

As at 31 December 2016, the number of share options and their expiration by year are as follows:

2017	8,750,000
2021	2,500,000
2022	27,500,000
Total	38,750,000

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.

	2016	2015
Balance at beginning of year	$ 2,787,038	$ 3,773,830
Gain arising on changes in fair value of hedging instruments entered into for cash flow hedges:		
Unrealised (loss) gain on oil hedging instruments	(311,695)	6,304,905
Deferred tax on unrealised gain on oil hedging instruments	110,968	(2,244,635)
Gains reclassified to profit and loss:		
Realised gain on oil hedging instruments reclassified to profit and loss	(3,686,396)	(7,837,223)
Deferred tax on realised gain on oil hedging instruments reclassified to profit and loss	1,312,409	2,790,161
Balance at end of year	$ 212,324	$ 2,787,038

26. Cash Flow from Operating Activities

	2016	2015
Loss before tax	$ (12,798,159)	$ (70,181,468)
Finance income	(582)	(173,641)
Finance costs	8,172,019	5,078,442
Share-based payment	47,455	251,666
Release of contingent consideration provision	(333,500)	(2,666,500)
Gain on disposal of property, plant and equipment	(5,500)	(7,940)
Fair value loss on royalty liability	-	2,371
Loss on derivative financial instruments	744,424	-
Impairment of intangible assets net of provision released for asset retirement costs	7,112,106	38,526,511
Impairment of property, plant and equipment	18,435	36,617,592
Depreciation	3,673,404	6,711,917
Amortisation and contribution from test revenue	4,372	573,221
Other	(13)	-
	6,634,461	14,732,171
Changes in working capital		
Decrease in inventory	131,138	134,153
Decrease in trade and other receivables	442,751	1,008,766
(Decrease) increase in trade and other payables	(387,206)	788,370
	6,821,144	16,663,460
Taxes paid	-	-
Net cash flow from operating activities	$ 6,821,144	$ 16,663,460

27. Financial Instruments

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

	2016	2015
Financial assets		
Cash and cash equivalents	$ 5,569,041	$ 5,969,485
Derivatives not qualifying for hedge accounting carried at fair value through profit and loss	-	172,850
Hedging instruments carried at fair value	329,702	4,327,794
Trade and other receivables (excluding prepayments)	1,875,510	2,487,343
Total	$ 7,774,253	$ 12,957,472
Financial liabilities		
Future loan royalty payments held at fair value through profit and loss	$ 742,736	$ 62,130
Derivatives not qualifying for hedge accounting carried at fair value through profit and loss	628,099	-
Financial liabilities held at amortised cost	55,763,518	58,085,037
Contingent consideration	-	333,500
Total	$ 57,134,353	$ 58,480,667

Fair value measurements

This note provides information about how the Company determines fair values of various financial assets and financial liabilities.

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

Some of the Company'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 2016	Fair value at 31 December 2015	Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
Oil price swaps (designated for hedging)	$ 329,702	$ 4,327,794	Level 2	Discounted cash flow	N/A	N/A
Oil price swaps and collars (not designated for hedging)	$ (628,099)	172,850	Level 2	Discounted cash flow	N/A	N/A
Future loan royalty payments held at fair value	$ (742,736)	$ (62,130)	Level 3	Discounted cash flow	(a)	(a)

Credit risk was not significant to derivative fair values.

(a) Future loan royalty payments are based upon future revenue from production which is unobservable as of the date of these financial statements. A 10% change in forecasted oil production would have a $60,000 impact on fair value.

27. Financial Instruments (continued)

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

Trade and other receivables
The Company'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 Company operates.

(b) Liquidity risk

In managing liquidity risk, the main objective of the Company is to ensure that it has the ability to pay all of its liabilities as they fall due. The Company monitors its levels of working capital to ensure that it can meet its liabilities as they fall due. The Company 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 Company's financial liabilities as at 31 December 2016 and 31 December 2015 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 2016						
Trade payables	$942,225	$942,225	$-	$-	$-	$-
Royalty payables	993,495	10,125	24,260	99,862	251,370	607,878
Accruals	3,489,939	-	3,489,939	-	-	-
Shareholder loan issued with warrants	14,352,055	-	-	2,256,164	1,500,000	10,595,890
Convertible loan notes – Jan 12	6,372,613	-	-	-	-	6,372,613
Convertible loan notes – Jun 13	4,907,104	-	-	612,011	348,903	3,946,190
Convertible loan notes – Aug 15	7,892,544	-	-	-	-	7,892,544
Bank loan	23,139,502	139,502	23,000,000	-	-	-
Shareholder loan issued with royalty	4,172,500	115,000	226,250	230,000	451,250	3,150,000
Finance lease payables	848,700	116,600	233,200	328,900	170,000	-
	$67,110,677	$24,323,452	$3,973,649	$3,526,937	$2,721,523	$32,565,115

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 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	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

(c) Market Risk

Interest rate risk and sensitivity analysis

The Company has borrowings at fixed and variable rates. At the balance sheet date, the Company'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.

Oil price risk

The Company 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 2016, the Company 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	17,350	$75.30	Jan 17 – Nov 17	$ 329,702
B-Oil	48,000	$52.45	Jan 17 – June 17	(154,851)
Costless collars:				
C-Oil	96,000	$47.00-$52.75	Jan 17 – Dec 17	(473,248)
	161,350			$(298,397)
Current	161,350			$(298,397)
Non-current	-			-

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

The swap contract A outstanding at 31 December 2016 was 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 $0.3 million charged directly in the cash flow hedging reserves. None of these hedges were ineffective. Swap contract B and costless collar C were not designated as a cash flow hedge.

During the year 2016, cash flow hedge swap contracts for 138,314 barrels matured (2015: 373,464 barrels) generating income of $3.7 million compared to $7.8 million for 2015. 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 Company'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 2016
WTI Oil Price	+10.0%	$(837,132)
	-10.0%	$ 781,873

	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 Company'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 Company.

The amounts which are held in Pound Sterling have been converted to US$.

2016	Carrying values	Sterling	US Dollars
Financial assets			
Cash and cash equivalents	$ 5,569,041	$ 121,198	$ 5,447,843
Derivatives designated and effective as hedging instruments carried at fair value	329,702	-	329,702
Trade and other receivables (excluding prepayments)	1,875,510	21,371	1,854,139
	$ 7,774,253	$ 142,569	$ 7,631,684
Financial liabilities			
Fair value of future loan royalty payments	$ 742,736	-	$ 742,736
Derivatives not qualifying for hedge accounting	628,099	-	628,099
Amortised cost	55,763,518	14,564,993	41,198,525
	$ 57,134,353	$14,564,993	$42,569,360

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

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

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 Company's equity.

	Change in US$/GBP exchange rate	December 2016	Change in US$/GBP exchange rate	December 2015
Sterling	+5.0%	$(710,440)	+5.0%	$(745,571)
	-5.0%	$ 710,440	-5.0%	$ 745,571

Capital Management

The Company's objectives when managing capital are to safeguard the Company'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 Company 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 Company's commitments and, where necessary, adjusts the level of capital as is determined to be necessary by issuing new shares.

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

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

	2016	2015
Debt:		
Straight	$ 36,322,212	$36,171,378
Convertible	14,219,988	14,916,355
	50,542,200	51,087,733
Cash	(5,569,041)	(5,969,485)
Net debt	$ 44,973,159	$45,118,248
Equity	$ (19,927,269)	$(7,620,194)
Debt to equity ratio	n/a	n/a

29. Financial Commitments

The Company had no financial commitments at 31 December 2016 (31 December 2015: $nil) .

30. Provisions and contingent consideration

The Company has recorded the following provisions for future obligations.

	2016	2015
Contingent consideration		
At 1 January 2016	$333,500	$3,000,000
Release of contingent consideration provision	(333,500)	(2,666,500)
At 31 December 2016	-	333,500
Asset retirement obligations		
At 1 January 2016	2,861,032	2,071,927
Recognition of obligations	-	765,734
Accretion expense	22,779	23,371
Provision released to match costs incurred	(74,000)	-
At 31 December 2016	2,809,811	2,861,032
Total	$ 2,809,811	$ 3,194,532

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 Company's working interest from 50% to 75%, prior to the subsequent purchase of the remaining 25% in 2013. The provision which gave rise to the contingent consideration has expired in January 2017 and therefore the value was reduced to nil as at 31 December 2016.

The asset retirement obligation provision represents costs estimated to be incurred for plugging, abandoning and reclaiming existing well 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

During the year to 31 December 2016, the Company incurred $38,000 for two new operating lease arrangements which expired during the year. These operating leases related to the Pilot Project equipment.

During the year to 31 December 2015, the Company incurred $461,328 in relation to operating leases which expired during that year. These operating leases primarily related to drilling rig commitments.

32. Finance Lease Arrangements

The Company leased certain of its water flood Pilot Project equipment under finance leases. The lease terms vary between 18 months to 5 years as at 31 December 2016 (2015: N/A).

The Company's obligations under finance leases are secured by the lessors' title to the leased assets.

Finance lease liabilities minimum lease payments:

	2016	2015
Not later than one year	$ 678,700	-
Later than one year and not later than five years	170,000	-
	848,700	
Less: future finance charges	(59,545)	-
Present value of minimum lease payments	$ 789,155	-

Finance lease liabilities are included in liabilities:

	2016	2015
Current	622,563	-
Non-current	166,592	-
	$ 789,155	-

33. 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	
	2016	2015
Remuneration:		
Mr R. McCullough	$ 265,005	$ 320,572
Mr J. Claesson	40,333	45,763
Mr R. Swindells*	-	372,873
Mr K. Hooley	233,369	32,813
Mr M. Thomsen*	-	672,698
Mr S. Eaton	48,496	48,814
Mr C. Wilson	377,440	369,600
	964,643	1,863,133
Social security costs	27,429	90,774
Share-based payments	47,455	153,213
Pension contributions	30,424	102,056
	$ 1,069,951	$ 2,209,716

* Includes severance payments upon termination of employment.

As discussed in Note 19, loans A, B, C, E and F 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 2016 and 2015, such material interests were, in aggregate, as follows:

	2016	2015
Brought forward balance	$ 25,581,670	$ 19,455,216
New principal lent in year	1,650,000	7,180,000
Foreign exchange movement	(2,483,556)	(890,985)
Production profit share and royalty stream charged in year	221,744	355,713
Production profit share and royalty stream paid in year	(94,902)	(518,274)
Interest charged in year	1,809,438	1,729,410
Interest paid in year	(851,960)	(1,729,410)
Balance owing at end of year (principal and interest)	$ 25,832,434	$ 25,581,670

During the year, Johan Claesson, family members and entities controlled by Mr. Claesson subscribed for $1.65 million (£1.23 million) of loan notes.

During 2015, 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 and a company controlled by Johan Claesson also hold a total of 65,000,000 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.

34. Investment in Subsidiaries

The Company'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	Address	Principal activities	Class	Percentage held
Nighthawk Royalties LLC	1805 Shea Ct Dr # 290 Highlands Ranch CO 80129	Oil and gas development	Ordinary	100%
Nighthawk Production LLC	1805 Shea Ct Dr # 290 Highlands Ranch CO 80129	Oil and gas development	Ordinary	(indirectly) 100%
OilQuest USA LLC	1805 Shea Ct Dr # 290 Highlands Ranch CO 80129	Oil and gas development	Ordinary	(indirectly) 100%

35. Contingent Liabilities

The Directors were aware of one, remote contingent liabilities within the Group or the Company at 31 December 2016, which expired January 2017.

36. Ultimate Controlling Party

As at 31 December 2016, Nighthawk Energy plc had no ultimate controlling party.

37. Events After the Balance Sheet Date

On 5 April, 2017, the shareholders of the Company approved a Waiver to Rule 9 of the Code, giving the Company the authority to issues shares to certain noteholders in the event the conversion feature on the deferred portion of interest payments is exercised. Refer to Note 19 for additional discussion.

38. Litigation

As of the date of issuance of this report, there is no material litigation in which the Company is involved.

The Group previously announced on 20 September 2016, that the Group reached a global settlement of all litigation and claims arising out of agreements with Running Foxes Petroleum, Inc. (RFP) and related issues with RFP's joint-venture partner, American Patriot Oil and Gas Inc. (APO). Under the terms of the settlement, Nighthawk, RFP and APO were released from all past, current, and future claims related to all current, pending and potential future issues between the parties within the Arikaree Creek Field. The parties agreed to dismiss all current and pending federal and state litigation and administrative regulatory matters, between them related thereto.

Parent Company Balance Sheet
as at 31 December 2016

	Notes	2016 £	2015 £
Fixed assets			
Property, plant and equipment		518	732
Investments	2	34,691,813	32,897,977
		34,692,331	32,898,709
Current assets			
Receivables	3	60,359	35,301
Cash at bank		2,196,499	271,185
		2,256,858	306,487
Current liabilities			
Trade and other payables	4	(891,389)	(246,861)
Net current assets		1,365,469	59,626
Non-current liabilities			
Borrowings	5	(22,211,553)	(16,778,981)
Net assets		13,846,247	16,179,354
Capital and reserves			
Share capital	6	2,410,191	2,410,191
Share premium	6	853,903	853,903
Special (restricted) reserve		18,420,536	18,420,536
Share-based payment reserve		3,205,785	3,341,916
Equity option on convertible loans		4,512,925	4,512,925
Retained deficit:			
Opening retained deficit		(13,360,117)	(847,694)
Exercised and expired options and warrants		174,612	206,420
Loss for the year		(2,371,588)	(12,718,843)
Total retained deficit		(15,557,093)	(13,360,117)
Shareholders' equity		13,846,247	16,179,354

The notes on pages 67 to 73 form part of these financial statements.

The financial statements were approved by the Board of Directors on 26 May 2017 and were signed on its behalf by:

Rick McCullough
Executive Chairman

Parent Company Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital £	Share premium £	Special (restricted) reserve £	Retained deficit £	Share-based payment reserve £	Equity option on convertible loans £	Total £
Balance at 1 January 2016	2,410,191	853,903	18,420,536	(13,360,117)	3,341,916	4,512,925	16,179,354
For the year ended 31 December 2016							
Loss for the year	-	-	-	(2,371,588)	-	-	(2,371,588)
Total comprehensive income (loss)	-	-	-	(2,371,588)	-	-	(2,371,588)
Share-based payments	-	-	-	-	38,481	-	38,481
Exercised and expired options and warrants	-	-	-	174,612	(174,612)	-	-
Balance at 31 December 2016	**2,410,191**	**853,903**	**18,420,536**	**(15,557,093)**	**3,205,785**	**4,512,925**	**13,846,247**
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**

Notes to the Parent Company Financial Statements
for the year ended 31 December 2016

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)

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 2016 was £2.4 million (2015: £12.7 million).

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, except for derivatives and certain royalty instruments.

The presentation currency used is sterling.

Financial Instruments
See policies on Financial Instruments in Note 2 of the Notes to Consolidated Financial Statements, except for derivatives and certain royalty payments.

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.

1. Accounting Policies (continued)

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.

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 Company Undertakings £	Investments in Subsidiaries £	Long term loans to Subsidiaries £	Total £
Cost				
As at 1 January 2016	103,561	8,931,857	23,862,559	32,897,977
Additions	-	-	22,195	22,195
Interest on inter-company loans	-	-	2,589,467	2,589,467
Payment of loan principal	-	-	(253,158)	(253,158)
Payment of interest	-	-	(564,668)	(564,668)
As at 31 December 2016	103,561	8,931,857	25,656,395	34,691,813

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

Company	Address	Principal activities	Class	Percentage held
Nighthawk Royalties LLC	1805 Shea Ct Dr # 290 Highlands Ranch CO 80129	Oil and gas development	Ordinary	100%
Nighthawk Production LLC	1805 Shea Ct Dr # 290 Highlands Ranch CO 80129	Oil and gas development	Ordinary	(indirectly) 100%
OilQuest USA LLC	1805 Shea Ct Dr # 290 Highlands Ranch CO 80129	Oil and gas development	Ordinary	(indirectly) 100%

3. Receivables

	2016 £	2015 £
Other receivables	17,330	4,639
Prepayments	43,029	30,662
	60,359	35,301

4. Trade and other payables

	2016 £	2015 £
Trade payables	17,699	29,668
Accruals	271,411	175,109
Royalty liability	602,279	42,084
	891,389	246,861

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 2016 and 2015 are classified as non-current on the accompanying Balance Sheet.

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

Loan	A £	B £	C £	E £	F £	Total £
Date of issue	January 2012	June 2013	July 2013	August 2015	July 2016	
Effective interest rate	12%	12%	12%			
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**
Issue of loans	-	-		-	1,823,173	1,823,173
Foreign exchange variance	-	-	1,344,046	-	37,187	1,381,233
Interest charge	566,202	346,730	1,219,534	613,106	206,216	2,951,788
Interest paid	-	(104,517)	(556,333)	-	(62,772)	(723,622)
Borrowings at 31 December 2016	**3,474,447**	**3,172,492**	**8,685,948**	**4,874,862**	**2,003,804**	**22,211,553**

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

6. A) Share Capital

	2016 £	2015 £
Allotted, issued and fully paid		
964,076,330 shares (31 December 2015: 964,076,330 shares) of 0.25 pence	2,410,191	2,410,191

Allotments during the year

During the year there were no shares were allotted for the exercise of shares. 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 Company's ordinary shares of 0.25 pence per share. Shares are allotted, issued and fully paid.

Year ended 31 December 2016	# of Shares	£
At beginning and end of the year	964,076,330	3,264,094

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

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 £38,481(2015: £170,468) related to share options and share awards accounted for as equitysettled sharebased payment transactions during the year, and £nil (2015: £ nil) related to warrants (issued with loans).

As at 31 December 2016, an adjustment of £174,612 (2015: £206,420) 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	
	2016	2015
	£	£
Remuneration:		
Mr R. McCullough	-	-
Mr R. Swindells	-	247,477
Mr C. Wilson	-	-
Mr S. Eaton	34,968	34,955
Mr J. Claesson	30,000	30,000
Mr K. Hooley	-	-
	64,968	312,432
Social security costs	2,635	33,614
Share-based payments	38,481	177,230
Pension contributions	-	23,750
	106,084	547,026

Included in Note 5 (loans A, B, C, E and F) 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 2016 and 2015, such material interests were, in aggregate, as follows:

	2016	2015
	£	£
Brought forward balance	17,341,809	12,482,159
New principal lent in year	1,227,292	4,595,200
Foreign exchange movement	1,358,599	371,017
Production profit share and royalty stream charged in year	164,936	233,189
Production profit share and royalty stream paid in year	(70,589)	(339,756)
Interest charged in year	1,345,884	1,133,719
Interest paid in year	(633,699)	(1,133,719)
Balance owing at end of year/period (principal and interest)	20,734,232	17,341,809

During the year, Johan Claesson, family members and entities controlled by Mr. Claesson subscribed for £1.23 million ($1.65 million) of loan notes.

In addition to the loans noted above, Mr. Claesson and a company controlled by Mr. Claesson hold 65,000,000 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.

8. Employees and Directors

The Parent company does not have any full-time employees. All employees are based in the US subsidaries

Directors' remuneration

The following remuneration table comprises Directors' fees and benefits in kind that were payable to Directors of the Parent company, who held office during the year ended 31 December 2016:

	For the year ended 31 December 2016			
	Basic salary/fees £	Pension contribution £	Benefits in kind £	Total £
Mr J Claesson	30,000	-	-	30,000
Mr S Eaton	32,010	-	4,073	36,083

9. Events After the Balance Sheet Date

See Note 37 of the Notes to the Consolidated Financial Statements.

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
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London EC2Y 5EB

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Denver, Colorado USA 80202

Registrars
Capita Asset Services
40 Dukes Place
London EC3A 7NH

www.signalshares.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 at the offices of Greenberg Traurig Maher LLP, 2 The Shard, Level 8, 32 London Bridge Street, London SE1 9SG on 23 June 2017 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 2016.

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

3. To re-elect Richard McCullough, 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 £1,663,207 (of which up to £663,207 in connection with the potential share payments of deferred interest, as approved by shareholders on 5 April 2017) 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
26 May 2017

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 21 June 2017 (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 21 June 2017 .

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 following 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 21 June 2017.

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.

Explanatory notes to the resolutions to be proposed at the Annual General Meeting

Resolution 1 – Report and Accounts

The directors will present the audited financial statements of the Company for the period ended 31 December 2016 together with the report of the directors on those financial statements.

Resolution 2 – Re-election of Stuart Eaton

Under the Articles of Association of the Company the directors are required to put themselves up for re-election at least every three years or, if no such directors are required to retire and offer themselves for re-election, at least one-third of the directors by number must retire and offer themselves for re-election. Accordingly, this year Stuart Eaton will resign at the AGM and offer himself for re-election.

Resolution 3 – Re-election of Richard McCullough

Under the Articles of Association of the Company the directors are required to put themselves up for re-election at least every three years or, if no such directors are required to retire and offer themselves for re-election, at least one-third of the directors by number must retire and offer themselves for re-election. Accordingly, this year Richard McCullough will resign at the AGM and offer himself for re-election.

Resolution 4 – Re-appointment of Auditors and Fixing of Auditors' Remuneration

The Company is required to appoint auditors at each AGM at which accounts are laid before shareholders, to hold office until the next such meeting. The Resolution proposes that BDO LLP be re-appointed as auditors for the current year and that the directors be authorised to set their fees.

Resolution 5 – Directors' Authority to Allot Shares

This resolution grants the directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £1,663,207. Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company. It is intended that this authority will be renewed as appropriate at future Annual General Meetings.

Nighthawk Energy plc Proxy Form

Alternatively you may also vote your shares electronically at www.signalshares.com

Proxy form for use at the Annual General Meeting of Nighthawk Energy plc (the "**Company**") to be held at the offices of Greenberg Traurig Maher LLP, on 23 June 2017 at 9.30 a.m. ("**AGM**" or "**Meeting**").

I/We……..
of……
being a member/members of the Company entitled to receive notice, attend and vote at general meetings of the Company, hereby appoint the Chairman of the Meeting (*Note 1*)

…… as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the AGM and at any adjournment thereof in relation to the resolutions specified in the notice of AGM dated 1 June2017 (the **"Resolutions**" and the **"Notice"** respectively) and any other business (including adjournments and amendments to the Resolutions) which may properly come before the Meeting or any adjournment thereof.

I/We direct my/our proxy to vote as follows in respect of the Resolutions (*Note 2*):

ORDINARY BUSINESS	**FOR**	**AGAINST**	**VOTE WITHHELD (*Note 2*)**
1. To receive the report and accounts for the year ended 31 December 2016 (ordinary resolution)			
2. To re-elect Stuart Eaton as a director (ordinary resolution)			
3. To re-elect Richard McCullough as a director (ordinary resolution)			
4. To appoint BDO LLP as auditors and to authorise the directors to fix their remuneration (ordinary resolution)			
SPECIAL BUSINESS			
5. To authorise the directors to allot relevant securities (ordinary resolution)			

(*Note 3*) Number of ordinary shares in relation to which proxy is authorised to act: ……

☐ This proxy appointment is one of a of multiple proxy appointment (*Note 4*)

☐ This proxy appointment is signed on behalf the member under power of attorney or other authority (*Notes 5 and 6*)

Signed …… Dated ……2017

Notes:

(1) A member who is entitled to attend, speak and vote may appoint a proxy to attend, speak and vote instead of him. A proxy need not be a member of the Company but must attend the AGM in order to represent his appointer. A member wishing to appoint someone other than the Chairman of the Meeting as his or her proxy should insert that person's name in the space provided in substitution for the reference to "*the Chairman of the Meeting*" (and delete that reference) and initial the alteration.

(2) Please indicate by inserting an "*X*" in the appropriate box how you wish your vote to be cast on the Resolutions. Your proxy must vote in accordance with any instructions given by you. If you mark the box "vote withheld" it will mean that your proxy will abstain from voting. A "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution. If you fail to select any of the given options, the proxy can vote as he or she chooses or can decide not to vote at all.

(3) If the proxy is being appointed in relation to less than your full voting entitlement, please indicate on the line provided the number of shares in relation to which that person is authorised to act as your proxy. If left blank, your proxy will be deemed to be authorised in respect of your full voting entitlement.

(4) 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 separate proxy form must be deposited for each proxy appointed. Further copies of this form may be obtained from Capita Asset Services 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. You may also photocopy this form. If you appoint multiple proxies please indicate on the line provided the number of shares in relation to which the person named on this form is authorised to act as your proxy, and also indicate by ticking the box provided that the proxy instruction is one of multiple instructions being given. All forms must be signed and returned to Capita Asset Services, the Company's registrars, at the address below, together in the same envelope.

(5) To be valid, this 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, must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Capita Asset Services at PXS, 34 Beckenham Road, Beckenham BR3 4TU, by no later than 9.30 a.m. on 21 June 2017. Alternatively, a member may appoint a proxy or proxies by using the CREST proxy appointment service, by following the procedure set out in Note 11 below. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the Notice.

(6) An individual member or his attorney must sign this form. If the member is a company, this proxy form must be executed under the company's common seal or signed on the company's behalf by a duly authorised officer or attorney of the company, stating their capacity (e.g. director, secretary).

(7) The appointment of a proxy will not preclude a member from attending the Meeting and voting in person. If the member appointing the proxy does so attend and vote, any proxy appointment will terminate automatically.

(8) In the case of joint holders, the proxy appointment of the most senior holder will be accepted to the exclusion of any appointments by the other joint holders. For this purpose, seniority is determined by the order in which the names are stated in the register of members of the Company in respect of the joint holding.

(9) A member wishing to change his or her proxy instructions should submit a new proxy appointment using the methods set out, and by the time limit specified, in Note 5. Any changes to proxy instructions received after that time will be disregarded. A member who requires another form should contact Capita using the telephone numbers set out in Note 4 above. Subject to Note 4, if a member submits more than one valid proxy appointment, the appointment received last before the time limit in Note 5 will take precedence.

(10) A member wishing to revoke his or her proxy appointment should do so by sending a notice to that effect to the Company's registrars to the address set out in Note 5 or electronically by means of the facility described in Note 11. The revocation notice must be received by Capita by the time limit set out in Note 5. Any revocation notice received after this time will not have effect.

(11) CREST members who wish to appoint a proxy or proxies through the CREST proxy appointment service may do so for the Meeting (and any adjournment thereof) by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must, in order to be valid, be transmitted so as to be received by Capita (ID RA10) no later than 48 hours before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Euroclear does not make available special procedures in CREST for any particular messages and normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

(12) As an alternative to completing your hard copy Form of Proxy, you can appoint a proxy electronically at www.signalshares.com. For an appointment to be valid, your appointment must be received no later than 9.30 a.m. on 21 June 2017.

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