

HAWKLEY OIL AND GAS LIMITED
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014

HAWKLEY OIL AND GAS LIMITED
FOR THE YEAR ENDED 30 JUNE 2014

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HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

30 JUNE 2014

Your directors present their report for the financial year ended 30 June 2014.

DIRECTORS

The names of the directors in office at any time during, or since the end of, the year are:

NAMES	POSITION	APPOINTED/RESIGNED
Mr Glenn Featherby	Executive Chairman	
Mr David Riekie	Non-Executive Director	Resigned 17 September 2013
Mr Richard Reavley	Chief Executive Officer and Executive Director	
Lord Richard Risby	Non-Executive Director	
Mr Graham Lyon	Non-Executive Director	
Bill Foster	Non-Executive Director	Appointed 16 September 2013

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

Mr Murray Wylie was appointed on 3 May 2013. He has more than 30 years' experience in administrative and accounting roles in both the public and private sectors. Mr Wylie holds a Bachelor of Commerce degree and is a Chartered Secretary. He also holds Company Secretary positions with two other listed companies.

PRINCIPAL ACTIVITIES

The following principal activities occurred during the financial year:

- Oil and gas exploration in Ukraine; and
- Production of gas and condensate from the Group's production well in Sorochynska.

OPERATING RESULTS AND REVIEW OF OPERATIONS FOR THE YEAR

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$23,535,043 (2013: \$6,678,738). This represented a \$16,856,305 decrease from the financial year ended 30 June 2013. This was primarily due to the impairment of the Chernetska-1 well (\$9,276,889), a write down of inventory (\$438,394) and a write down of the Sorochynska CGU (\$2,994,466).

Further discussion on the Group's operations now follows.

SOROCHYNSKA LICENCE

During the 2014 financial year, Hawkley reported continuing successful production from the Sorochynska 201 well, with average daily production of 2.2 mmscf gas and 49 barrels of condensate, totaling 0.80 Bcf gas and

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DIRECTORS' REPORT

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OPERATING RESULTS AND REVIEW OF OPERATIONS FOR THE YEAR (CONTINUED)

17,976 Bbbls condensate during the year.

Since the well commenced production in February 2011, cumulative production to August 31st 2014 was 5.46 Bcf and 169,530 Bbbls of gas and condensate respectively.

In order to maximise recovery from the field Hawkley undertook the installation of a compressor which was commissioned in April 2014 with only minor interruptions to production during installation. Post commissioning, production has stabilised at 2.1 mmscf gas per day and 40 barrels of condensate per day.

The 202 well, although confirming the presence of hydrocarbons, proved to be non-commercial and was suspended, pending abandonment, in 2013, with the capitalised exploration costs being written off during the period. Analysis of the interpreted Sorochnynska 3D data set, along with receipt of the new reserves report, resulted in the Company deciding to defer the drilling of the anticipated third development well, Sorochnynska 203, and concentrating on compression installation as an alternative to incurring significant drilling costs.

The "Eurocrimea" gas plant remedial works, including installation of government mandated metering equipment, were largely completed by year end and, as a result of exiting from third party gas and gas condensate treatment contracts, allowed a significant de-risking of the treatment processes and reduction of gas and gas condensate treatment costs. The Sorochnynska gas plant has operated at an average 99%+ uptime.

CHERNETSKA LICENCE

Technical evaluation of seismic data and testing from the Chernetska-1 well on the Chernetskaya license continues, with farm out options being considered to further investigate the demonstrated exploration potential of the licence.

STOLIAROVSKA LICENCE

In March 2013, Hawkley commenced funding of activities on the 20 year Stolyarivska Production Licence. The licence which covers an area of some 47 km² is located approximately 25 km east-southeast of Romny in Sum'ska Oblast, 225 km east of Kyiv.

The licence is covered with a relatively close spaced irregular grid of mixed vintage 2D seismic lines. In 2013 Ukrgeofizika was contracted to reprocess and reinterpret the 2D seismic data set. Ukrgeofizika's reprocessing and interpretation report was received in December 2013 and has been reviewed by Hawkley's technical team. Hawkley remains excited by the prospectivity in the block and is considering farm out options in the short to medium term.

GEOPOLITICAL EVENTS

Hawkley's gas production at the Sorochnynska Production Licence has continued to operate on a normal basis with no impact on production resulting from the geo-political conflict between Ukraine and Russia. The Kiev

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DIRECTORS' REPORT

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OPERATING RESULTS AND REVIEW OF OPERATIONS FOR THE YEAR (CONTINUED)

office remains open and fully functional with all staff remaining safe and continuing in their respective roles.

The Ukrainian National Bank has implemented temporary capital controls to limit withdrawals from the country's banking system. The Company has extended cost control measures to minimise the impact. The situation in Ukraine has impacted the Ukrainian currency however this is somewhat mitigated by the fact that gas and liquids prices are denominated in US dollars.

In August 2014, the Ukrainian Government passed emergency budget legislation to significantly increase production taxes for independent oil and gas companies from August 1st to December 31st 2014. The royalty rates for gas has approximately doubled to 55%. It is currently anticipated that the taxes will revert to previous levels at the end of this period.

NEW VENTURES

During the year, new opportunities within Ukraine, Russia and other FSU countries were reviewed along with continuing efforts to secure new business opportunities in Myanmar and the wider Asian region. In March 2014 the Company was unsuccessful in securing the three shallow water licenses in Myanmar that formed part of the bid in partnership with Azimuth Resources, with the majority of the licenses being awarded to major global energy companies including Chevron, Shell and Woodside.

The company is currently considering two specific corporate transactions with the aim of providing diversification and a new direction for the company. Further details will be made in due course.

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

FINANCIAL POSITION

The net assets of the Group have decreased by \$20,837,143 from 30 June 2013 to \$7,573,144 in 2014. The decrease has largely resulted from the following factors:

- Impairment of significant exploration and evaluation assets including Chernetska -1 well;
- Impairment of the Sorochynska cash generating unit;
- Profitable gas and condensate production in Ukraine;
- Unfavorable movements in foreign exchange rates; and
- Continued exploration for oil and gas reserves.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the Group's state of affairs occurred during the financial year.

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EVENTS SUBSEQUENT TO BALANCE DATE

Other than as reported below, no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

In August 2014, the Ukrainian Government passed emergency budget legislation to significantly increase production taxes for independent oil and gas companies from August 1st to December 31st 2014. The royalty rates for gas has approximately doubled to 55%. It is currently anticipated that the taxes will revert to previous levels at the end of this period.

FUTURE DEVELOPMENTS

The likely developments in the operations of the Group and the expected results of those operations in future financial years are the continued production of and exploration for oil and gas in Ukraine.

ENVIRONMENTAL ISSUES

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

INFORMATION ON DIRECTORS

Mr Glenn Featherby Executive Chairman

Experience Mr Featherby has over 30 years' experience in corporate advisory work and has worked extensively in the resources sector. He worked with KPMG in Perth and London before establishing his own accounting practice in Perth in 1997. Mr Featherby is Chairman of Forte Energy Limited, a resources company with assets in Africa that is dual listed on the ASX and AIM markets. He has previously been Finance Director of AIM-listed Regal Petroleum Plc and Non-Executive Director of Canadian and AIM-listed European Goldfields Limited.

Interest in Shares and 26,239,377 ordinary shares
Options

Directorships held in other Forte Energy Limited
listed entities during the Patagonia Gold Plc
three years prior to the Ochre Group Holdings Limited
current year

Special duties Audit committee, remuneration committee

HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

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INFORMATION ON DIRECTORS (CONTINUED)

Mr David Riekie	Non-Executive Director (resigned 17 September 2013)
Experience	Mr Riekie has more than 14 years experience as an Executive Director of a boutique corporate advisory company. During this period Mr Riekie held a variety of Non-Executive board positions, either as Non-Executive Chairman or Non-Executive Director for ASX listed companies in both the resource and industrial sectors. Mr Riekie has experience in the resource sector at the exploration, pre-production and production level for oil and gas, precious and base metals and mineral sands both within Australia and overseas. Mr Riekie is a Chartered Accountant, a Member of the Institute of Company Directors and holds a Bachelor of Economics and a Diploma of Accounting.
Directorships held in other listed entities during the three years prior to the current year	Uranio Limited (resigned 20 July 2009) Avonlea Minerals Limited
Mr Richard Reavley	Chief Executive Officer and Executive Director
Experience	Mr Reavley has over 10 years experience working in London's financial sector and the natural resource industry. A founding member of Janita Global Limited, Mr Reavley was appointed Managing Director in January 2007. Mr Reavley has relevant experience managing oil and gas assets in Europe and Central Asia. He has public company experience as a former director of Goldbelt Resources Ltd, a TSX listed company. Mr Reavley has a BSc in Chemistry from the University of Kent and an MBA (Finance) from London Business School.
Interest in Shares and options	12,760,410 ordinary shares.
Directorships held in other listed entities during the three years prior to the current year	Nil
Special duties	Reserves committee

HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

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INFORMATION ON DIRECTORS (CONTINUED)

Lord Richard Risby	Non-Executive Director
Experience	Lord Risby has over 20 years experience in the financial services sector. Previously of Merrill Lynch, E F Hutton International Associates, Lehman Brothers and Furman Selz, Lord Risby had a variety of director positions covering a comprehensive range of investment services to institutional clients. Lord Risby has been the Chairman of the British Ukrainian Society for 5 years and was appointed to the House of Lords in November 2010.
Interest in Shares and Options	1,000,000 options exercisable at 26 cents expiring on or before 30 July 2015 and 1,000,000 options exercisable at 10 cents expiring on or before 30 September 2018.
Directorships held in other listed entities during the three years prior to the current year	Nil
Special duties	Audit committee, remuneration committee (Chair)
Mr Graham Lyon	Non-Executive Director
Experience	Mr Graham Lyon has over 30 years of experience in the oil and gas industry, working for a wide range of listed and private companies. Graham has a BSc Eng (Hons) in Petroleum Engineering from Imperial College London. He started his career with Chevron before moving to Shell as sub surface team leader and as project petroleum engineer. Graham then spent 14 years with Deminex in a series of technical leadership roles in the UK, Germany and Egypt, and its successor, Veba Oil and Gas, including Regional Manager for the Caspian and Middle East, thereafter he was heavily involved with the sale of the company to Petro-Canada. Graham remained with Petro-Canada for a further 7 years holding roles culminating in Vice President Strategy and Business Development, International and Offshore. Within the last 5 years Graham has held the position of President and Chief Executive Officer of Mena Hydrocarbons Inc, a TSX-V listed energy company, with assets in Egypt and Syria and is currently a Non-Executive Director at Range Resources Ltd, an AIM and ASX listed energy company, and a Director at Tarbagatay Munay LLP a private Kazakhstani oil and gas company and Soncer Ltd
Interest in Shares and Options	1,000,000 options exercisable at 26 cents expiring on or before 30 July 2015 and 2,000,000 options exercisable at 10 cents expiring on or before 30 September 2018.
Directorships held in other listed entities during the three years prior to the current year	Mena Hydrocarbons Inc Range Resources Limited
Special duties	Reserves committee (Chair), remuneration committee

HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

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INFORMATION ON DIRECTORS (CONTINUED)

Mr Bill Foster	Non-Executive Director (appointed 17 September 2013)
Experience	Mr Foster is an engineer with extensive technical, commercial and managerial experience in the energy industry over a 40 year period. He has been an advisor to a major Japanese trading company for the last 20 years in the development of their global E&P and LNG activities and has spent time prior to this working internationally in the development of a number of energy companies.
Interest in Shares and Options	2,000,000 options exercisable at 10 cents expiring on or before 30 September 2018.
Directorships held in other listed entities during the three years prior to the current year	Carnarvon Petroleum Limited
Special duties	Audit committee (Chair), reserves committee

MEETINGS OF DIRECTORS

During the financial year, 4 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	DIRECTORS' MEETINGS		REMUNERATION COMMITTEE		AUDIT COMMITTEE		RESERVES COMMITTEE	
	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
Mr Glenn Featherby	4	4	-	-	-	-	-	-
Mr Richard Reavley	4	4	-	-	-	-	2	2
Lord Richard Risby	4	2	-	-	-	-	-	-
Mr Graham Lyon	4	4	-	-	-	-	2	2
Mr Bill Foster	4	4	-	-	-	-	1	1

INDEMNIFYING OFFICERS OR AUDITORS

The Group has paid premiums to insure directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the Group, other than conduct involving a willful breach of duty in relation to the Group.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims made by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

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DIRECTORS' REPORT

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OPTIONS/PERFORMANCE RIGHTS

At the date of this report, there are 16,000,000 unissued ordinary shares of Hawkley Oil and Gas Limited under option. There are also 1,000,000 performance rights on issue.

GRANT DATE	DATE OF EXPIRY	EXERCISE PRICE	NUMBER UNDER OPTION
31 October 2012	30 June 2015	0.26	2,000,000
17 January 2014	30 September 2018	0.10	9,000,000
27 December 2013	30 September 2018	0.10	5,000,000
			<hr/> 16,000,000 <hr/>

During the year ended 30 June 2014, no ordinary shares of Hawkley Oil and Gas Limited were issued on the exercise of options.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the financial year.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the financial year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

30 JUNE 2014

NON-AUDIT SERVICES (CONTINUED)

The following fees were paid to the external auditors during the year ended 30 June 2014:

	2014	2013
	\$	\$
Auditing or reviewing the financial report	111,191	93,480
Taxation services	-	25,910
	<hr/>	<hr/>
	111,191	119,390

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 17 of the financial report.

REMUNERATION REPORT (AUDITED)

REMUNERATION POLICY

The performance of the Group depends upon the quality of its Directors and other key management personnel.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Remuneration Committee

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Executive Directors and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments (including option allocations) of such Officers on a periodic basis by reference to the relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and key management personnel.

Executive Remuneration Structure

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of Executive Directors' and Officers' emoluments (including option allocations) to the Group's financial and operational performance. All Directors and other key management personnel will have the opportunity to qualify for participation in the Employee Share Option Plan.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of Company-wide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Senior executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and additional superannuation, which is provided by salary sacrifice. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

Variable Remuneration – Long Term Incentive (LTI)

The LTI plan aims to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. There are no performance criteria for the grant of options, but rather are at the discretion of the Board.

As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance. LTI grants to executives are delivered in the form of options or rights.

REMUNERATION REPORT (CONTINUED) (AUDITED)

REMUNERATION POLICY (CONTINUED)

Usually options issued under the employee share option plan, including executive options, generally have a one to two year vesting period. If an executive ceases employment with the Group prior to the options vesting, then those options are forfeited. Vested options are forfeited if they are not exercised within one month upon an executive ceasing employment with the Group, or six months in special circumstances as deemed appropriate by Board of Directors.

Options are granted under the plan for no consideration. They also carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in Hawkley Oil and Gas Limited.

The plan rules do not contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. However, the Directors, at their discretion imposed such a restriction. Consequently plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

During the previous and current financial year options were granted as equity compensation benefits by either shareholder approval or under the Employee Share Option Plan (ESOP) to certain Directors and key management personnel as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity.

To date, options over shares have been issued to directors and executives as part of their remuneration packages and have been subject to shareholder's approval. There are no performance hurdles attaching to the options granted other than service vesting conditions.

Packages are tailored to individual employees in order to provide maximum encouragement to perform for the benefit of shareholders and are designed to reflect labour demands. The aim of individual remuneration packages is to provide a balance between the immediate and long-term goals of the Group.

The Group also remunerates key management personnel via the granting of performance rights under the Performance Rights Plan approved at the general meeting of 2 June 2011. The performance rights, once vested, entitle the key management personnel to share in the Company.

Non-executive Director Remuneration

The Board seeks to aggregate remuneration at a level which provides the Group the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Non-executive Director remuneration is determined within the aggregate Directors fee pool, which was increased from \$200,000 to \$500,000 following approval by shareholders at an EGM held on 2 June 2011.

Each Director receives a fixed fee for being a Director of the Company. No additional fees are paid for Board committee membership. Should a Director be requested by the Chairman to undertake review work additional to normal Board and Board committee work, the Director receives additional fees based on commercial hourly rates. However, the additional fees will not result in the aggregate amount of Directors' fees approved by shareholders being exceeded.

HAWKLEY OIL AND GAS LIMITED

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REMUNERATION REPORT (CONTINUED) (AUDITED)

REMUNERATION POLICY (CONTINUED)

Remuneration, Company Performance and Shareholder Wealth

The development of remuneration policies and structures are considered in relation to the effect on Group performance and shareholder wealth. They are designed by the Board to align Director and executive behaviours with improving Group performance and, ultimately, shareholder wealth.

Looking forward, the Group aims to advance shareholder wealth through the successful production of oil and gas assets.

The following table shows the net profit/(loss) for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

	2010	2011	2012	2013	2014
	\$	\$	\$	\$	\$
Net Profit/(Loss)	(6,008,551)	(1,396,369)	6,775,332	(6,678,738)	(20,539,660)
Share Price at year-end	0.155	0.325	0.165	0.035	0.017

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES

The following table provides employment details of persons who were, during the financial year and members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options/rights.

HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

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REMUNERATION REPORT (CONTINUED) (AUDITED)

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES (CONTINUED)

Key Management Personnel	POSITION HELD AS AT 30 JUNE 2014	CONTRACT DETAILS (DURATION & TERMINATION)	PROPORTIONS OF ELEMENTS OF REMUNERATION NOT RELATED TO PERFORMANCE		
			OPTIONS/ RIGHTS %	FIXED SALARY/FEE S %	TOTAL %
Mr Glenn Featherby	Executive Chairman	On going contract with no notice period	-	100	100
Mr Richard Reavley	Chief Executive Officer and Executive Director	On going contract with 3 month notice period	-	100	100
Lord Richard Risby	Non-Executive Director	On going contract with no notice period	14	86	100
Mr Graham Lyon	Non-Executive Director	On going contract with no notice period	18	82	100
Mr Bill Foster	Non-Executive Director	On going contract with no notice period	4	96	100
Mr Murray Wylie	Company Secretary	On going contract with no notice period.	-	100	100

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment.

Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of 3 months notice prior to termination of contract. No termination payments are generally payable. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least 3 months notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

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REMUNERATION REPORT (CONTINUED) (AUDITED)

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2014

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group:

Table of Benefits and Payments for the Year Ended 30 June 2014

		SHORT-TERM BENEFITS (I)	POST-EMPLOYMENT BENEFITS	EQUITY-SETTLED SHARE-BASED PAYMENTS		
		SALARY, FEES AND LEAVE	PENSION AND SUPERANNUATION	OPTIONS/PERFORMA NCE RIGHTS	TERMIN- ATION BENEFITS	TOTAL
		\$	\$	\$	\$	\$
Directors						
Mr Glenn Featherby	2014	164,845	15,240	-	-	180,085
	2013	165,138	14,862	-	-	180,000
Mr David Riekie	2014	19,113	1,720	-	-	20,833
	2013	57,339	5,161	-	-	62,500
Mr Richard Reavley	2014	501,773	-	-	-	501,773
	2013	363,479	-	-	-	363,479
Lord Richard Risby	2014	64,565	-	4,985	-	69,550
	2013	36,301	-	48,228	-	84,529
Mr Graham Lyon	2014	166,292	-	9,969	-	176,261
	2013	91,881	-	48,228	-	140,109
Mr Bill Foster	2014	46,376	4,290	17,084	-	67,750
<hr/>						
	2014	962,964	21,250	32,038	-	1,016,252
	2013	714,138	20,023	96,456	-	830,617
Other Key Management Personnel						
Mr Ian Hobson	2014	-	-	-	-	-
	2013	54,485	-	-	-	54,485
Mr Murray Wylie	2014	43,935	4,065	-	-	48,000
	2013	7,086	656	-	-	7,742
<hr/>						
	2014	43,935	4,065	-	-	48,000
	2013	61,571	656	-	-	62,227

The following directors were appointed or resigned during the year or prior year;

- Mr Bill Foster (appointed 16 September 2013)

HAWKLEY OIL AND GAS LIMITED

DIRECTORS' REPORT

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- Mr David Riekie (resigned 17 September 2013)

(i) Salary, fees and leave for key management personnel includes \$83,528 deferred directors fees (unpaid at 30 June 2014).

OPTIONS GRANTED

GRANT DETAILS				OVERALL		
DATE	NO.	VALUE PER OPTION		VESTED %	UNVESTED %	LAPSED %
		CENTS				
		(NOTE 1)				
KMP						
Lord Richard Risby	27 December 2013	1,000,000	0.850	0	100	0
Mr Graham Lyon	27 December 2013	2,000,000	0.850	0	100	0
Mr Bill Foster	27 December 2013	2,000,000	0.850	0	100	0

Note 1 Options are exercisable at 10 cents on or before 30 September 2018.

The number of options over ordinary shares held by each key management person of the Group during the financial year is as follows:

	GRANTED AS			BALANCE ON RESIGNATION	BALANCE AT END OF YEAR	VESTED DURING THE YEAR	VESTED AND EXERCISABLE	VESTED AND UNEXERCISABLE
	BALANCE AT BEGINNING OF YEAR	REMUNERATION DURING THE YEAR	EXPIRED DURING THE YEAR					
30 JUNE 2014								
Mr Glenn Featherby	-	-	-	-	-	-	-	-
Mr David Riekie	3,000,000	-	-	(3,000,000)	-	-	-	-
Mr Richard Reavley	4,000,000	-	(4,000,000)	-	-	-	-	-
Lord Richard Risby	1,000,000	1,000,000	-	-	2,000,000	-	1,000,000	-
Mr Graham Lyon	1,000,000	2,000,000	-	-	3,000,000	-	1,000,000	-
Mr Bill Foster	-	2,000,000	-	-	2,000,000	-	-	-
	<u>9,000,000</u>	<u>5,000,000</u>	<u>(4,000,000)</u>	<u>(3,000,000)</u>	<u>7,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>

HAWKLEY OIL AND GAS LIMITED

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The number of ordinary shares in Hawkley Oil and Gas Limited held by each key management person of the Group during the financial year is as follows:

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATI ON DURING THE YEAR	ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR	BALANCE ON RESIGNATIO N	BALANCE AT END OF YEAR
30 June 2014					
Mr Glenn Featherby	26,239,377	-	-	-	26,239,377
Mr David Riekie	238,514	-	-	(238,514)	-
Mr Richard Reavley	12,760,410	-	-	-	12,760,410
Lord Richard Risby	-	-	-	-	-
Mr Graham Lyon	-	-	-	-	-
Bill Foster	-	-	-	-	-
	39,238,301	-	-	(238,514)	38,999,787

On 29 November 2013, the Group granted 5,000,000 options to directors. Lord Risby, a director of the company, received 1,000,000 options, Mr Lyon received 2,000,000 options and Mr Foster received 2,000,000 options. Using the Black and Scholes Option valuation methodology, the fair value of the options issued were calculated using the following inputs.

Number of options:	5,000,000	Risk free interest rate:	3.43%
Exercise price:	\$0.10	Share price at grant date:	\$0.019
Expected exercise date:	30 September 2018	Expected volatility	89.7%
Each option was valued at	\$0.0085		

Voting and comment made on the Group's 2013 Annual General Meeting

The Group received approximately 98% (2012: 75%) of "yes" votes on its remuneration report for the year ended 30 June 2013.

Signed in accordance with a resolution of the Board of Directors:


Director:
Mr Glenn Featherby

Dated 30 September 2014

Auditor's Independence Declaration to the Directors of Hawkley Oil and Gas Limited

In relation to our audit of the financial report of Hawkley Oil and Gas Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



RJ Curtin
Partner
Perth
30 September 2014

HAWKLEY OIL AND GAS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

		2014	2013
		\$	\$
Continuing operations			
Sales revenue		8,618,335	14,244,860
Other revenue	2(a)	401,138	868,223
Total revenue		9,019,473	15,113,083
Cost of sales		(7,992,818)	(7,964,094)
Gross profit		1,026,655	7,148,989
Other income	2(a)	-	5,000
Other expenses	2(b)	(25,492,862)	(14,661,494)
Loss before income taxes		(24,466,207)	(7,507,505)
Income tax benefit	3(a)	931,164	828,767
Loss from continuing operations		(23,535,043)	(6,678,738)
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Foreign currency translation		2,718,624	1,319,685
Total comprehensive income for the year		(20,816,419)	(5,359,053)

Earnings per share:

Basic earnings (loss) per share	16	(0.08)	(0.02)
Diluted earnings (loss) per share	16	(0.08)	(0.02)

HAWKLEY OIL AND GAS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	NOTE	2014 \$	2013 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	745,318	2,333,977
Trade and other receivables	6	2,283,651	1,470,212
Inventories	7	278,427	157,738
Other current assets	9	83,735	87,679
TOTAL CURRENT ASSETS		3,391,131	4,049,606
NON-CURRENT ASSETS			
Trade and other receivables	6	11,690	2,219,476
Property, plant and equipment	8	2,473,143	5,447,699
Gas properties	11	1,359,384	6,753,742
Deferred exploration and evaluation expenditure	10	1,302,421	12,679,565
TOTAL NON-CURRENT ASSETS		5,146,638	27,100,482
TOTAL ASSETS		8,537,769	31,150,088
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	734,016	1,224,997
Current tax payable		-	33,489
TOTAL CURRENT LIABILITIES		734,016	1,258,486
NON-CURRENT LIABILITIES			
Deferred tax liability	4	-	1,166,207
Provisions	13	230,609	315,108
TOTAL NON-CURRENT LIABILITIES		230,609	1,481,315
TOTAL LIABILITIES		964,625	2,739,801
NET ASSETS		7,573,144	28,410,287

HAWKLEY OIL AND GAS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

EQUITY			
Issued capital	14	38,072,051	38,072,051
Reserves	15	8,656,773	5,958,873
Accumulated losses		(39,155,680)	(15,620,637)
TOTAL EQUITY		<u>7,573,144</u>	<u>28,410,287</u>

HAWKLEY OIL AND GAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	ORDINARY SHARES	RETAINED EARNINGS	CONVERTIBLE NOTE EQUITY RESERVE	SHARE BASED PAYMENT RESERVE	FOREIGN CURRENCY TRANSLATIO N RESERVE	TOTAL
	\$	\$	\$	\$	\$	\$
Balance at July 1, 2012	37,565,375	(8,941,899)	(687,907)	4,782,883	388,828	33,107,280
Profit or loss attributable to members of the parent entity	-	(6,678,738)	-	-	-	(6,678,738)
Total other comprehensive income for the year	-	-	-	-	1,319,685	1,319,685
	-	(6,678,738)	-	-	1,319,685	(5,359,053)
Shares issued during the year	412,926	-	-	-	-	412,926
Share based payment	-	-	-	249,134	-	249,134
Shares issued on exercise of options	93,750	-	-	(93,750)	-	-
Sub-total	506,676	(6,678,738)	-	155,384	1,319,685	(4,696,993)
Balance at June 30, 2013	38,072,051	(15,620,637)	(687,907)	4,938,267	1,708,513	28,410,287

HAWKLEY OIL AND GAS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	ORDINARY SHARES	RETAINED EARNINGS	CONVERTIBLE NOTE EQUITY RESERVE	SHARE BASED PAYMENT RESERVE	FOREIGN CURRENCY TRANSLATIO N RESERVE	TOTAL
	\$	\$	\$	\$	\$	\$
Balance at July 1, 2013	38,072,051	(15,620,637)	(687,907)	4,938,267	1,708,513	28,410,287
Loss attributable to members of the parent entity	-	(23,535,043)	-	-	-	(23,535,043)
Other comprehensive income for the year	-	-	-	-	2,718,624	2,718,624
Total other comprehensive income for the year	-	(23,535,043)	-	-	2,718,624	(20,816,419)
Share based payment	-	-	-	(20,724)	-	(20,724)
	-	(23,535,043)	-	(20,724)	2,718,624	(20,837,143)
Balance at June 30, 2014	38,072,051	(39,155,680)	(687,907)	4,917,543	4,917,543	7,573,144

HAWKLEY OIL AND GAS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 \$	2013 \$
CASH FROM OPERATING ACTIVITIES:			
Receipts from customers		10,051,312	16,302,238
Payments to suppliers and employees		(10,383,882)	(12,165,915)
Interest received		362,509	310,406
Income taxes paid		(268,532)	(575,148)
Net cash provided by (used in) operating activities		(238,593)	3,871,581
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,083,575)	(5,092,366)
Payment for exploration expenditure		-	(3,362,041)
Payment for gas properties		(5,060)	(284,321)
Payments to other parties		-	(2,171,419)
Net cash used by investing activities		(1,088,635)	(10,910,147)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		-	436,749
Net cash provided by financing activities		-	436,749
Foreign exchange differences		(261,431)	983,603
Net cash increase (decreases) in cash and cash equivalents		(1,588,659)	(5,618,214)
Cash and cash equivalents at beginning of year		2,333,977	7,952,191
Cash and cash equivalents at end of financial year	5	745,318	2,333,977

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

This financial report includes the consolidated financial statements and notes of Hawkley Oil and Gas Limited and the entities it controlled during the year ended 30 June 2014, and was authorised for issue in accordance with a resolution of the Directors on 30 September 2014.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hawkley Oil and Gas Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report is a general purpose financial statement that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

These financial statements are presented in Australian dollars, rounded to the nearest dollar. The overseas subsidiaries of the parent have United States dollars or Ukraine Hryvnia as their functional currency. All other companies within the entity have Australian dollars as their functional currency.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Hawkley Oil and Gas Limited at the end of the reporting period. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 22 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(A) PRINCIPLES OF CONSOLIDATION (CONTINUED)

have entered (left) the Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and consolidated statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(A) PRINCIPLES OF CONSOLIDATION (CONTINUED)

equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

(B) REVENUE AND OTHER INCOME

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

(C) INCOME TAX

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantively enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) INCOME TAX (CONTINUED)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The company and its wholly-owned Australian subsidiaries have not implemented the tax consolidation legislation.

(D) EMPLOYEE BENEFITS

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Restoration Provisions

The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of long lived assets to which the obligation relates is increased by the asset retirement obligation cost and amortised over the producing life of the asset. Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Group has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount rate is recorded within finance costs. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(F) FOREIGN CURRENCY TRANSACTIONS AND BALANCES

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency. The overseas subsidiaries of the parent have United States dollars or Ukraine Hryvnia as their functional currency. All other companies within the entity have Australian dollars as their functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised through the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised through the profit or loss.

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) FOREIGN CURRENCY TRANSACTIONS AND BALANCES (CONTINUED)

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised through the profit or loss in the period in which the operation is disposed.

(G) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

(H) INVENTORIES

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(I) FINANCIAL INSTRUMENTS

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FINANCIAL INSTRUMENTS (CONTINUED)

classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FINANCIAL INSTRUMENTS (CONTINUED)

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- (d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FINANCIAL INSTRUMENTS (CONTINUED)

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months of the end of the reporting period.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets)

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

DERECOGNITION

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

(J) PROPERTY, PLANT AND EQUIPMENT

Each class of property, plant and equipment is carried at cost, less, any accumulated depreciation and impairment losses.

PLANT AND EQUIPMENT

Plant and equipment are measured on the cost basis.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

DEPRECIATION

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives used for each class of depreciable assets are:

CLASS OF FIXED ASSET	USEFUL LIFE
Plant and Equipment	3 - 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included through the profit or loss.

Property, plant and equipment is derecognised and removed from the consolidated statement of financial position on disposal or when no future economic benefits are expected. Gains and losses from derecognition are measured as the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit or loss.

Subsequent costs are included in the property, plant and equipment's carrying value or recognised as a separate asset when it is probable that future economic benefits associated with the item will be realised and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss.

(K) EXPLORATION AND DEVELOPMENT EXPENDITURE

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- i) the rights to tenure of the area of interest are current; and
- ii) at least one of the following conditions is also met:
 - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (b) exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) EXPLORATION AND DEVELOPMENT EXPENDITURE (CONTINUED)

are occurring.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

(L) GAS PROPERTIES

ASSETS IN DEVELOPMENT

When the technical and commercial feasibility of an undeveloped gas field has been demonstrated, the field enters its development phase. The cost of gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment, and any associated land and buildings.

PRODUCING ASSETS

The costs of gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

AMORTISATION

Producing assets are amortised on a units of production basis over proved reserves.

(M) IMPAIRMENT OF ASSETS

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed through the profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Non-financial assets, other than inventories and deferred tax assets are assessed for any indication of

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) IMPAIRMENT OF ASSETS (CONTINUED)

impairment at the end of each reporting period. Any indication of impairment requires formal testing of impairment by comparing the carrying amount of the asset to an estimate of the recoverable amount of the asset. An impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the recoverable amount of the asset.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment annually regardless of whether there is any indication of impairment.

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. The asset's value in use is calculated as the estimated future cash flows discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks associated with the asset. Assets that cannot be tested individually for impairment, are grouped together into the smallest group of assets that generates cash inflows (the asset's cash-generating unit).

Impairment losses are recognised in profit or loss. Impairment losses are allocated first, to reduce the carrying amount of any goodwill allocated to cash-generating units, and then to other assets of the group on a pro rata basis.

Assets other than goodwill are assessed at the end of each reporting period to determine whether previously recognised impairment losses may no longer exist or may have decreased. Impairment losses recognised in prior periods for assets other than goodwill are reversed up to the carrying amounts that would have been determined had no impairment loss been recognised in prior periods.

(N) TRADE AND OTHER PAYABLES

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(O) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

(P) LEASES

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) LEASES (CONTINUED)

expense for the period.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(Q) BORROWING COSTS

For periods beginning on or after January 1, 2009, borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to ready for its intended use are capitalised as part of the cost of the asset.

Other borrowing costs are expensed in the period in which they occur. Borrowing costs consists of finance charges and interest expenses calculated using the effective interest method, and include exchange differences arising from foreign currency borrowings to the extent that they are regarded as interest cost adjustments.

(R) SHARE-BASED PAYMENT TRANSACTIONS

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

When the goods or services acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

The cost of equity-settled transactions and the corresponding increase in equity is measured at the fair value of the goods or services acquired. Where the fair value of the goods or services received cannot be reliably estimated, the fair value is determined indirectly by the fair value of the equity instruments using the Black Scholes option valuation technique.

Equity-settled transactions that vest after employees complete a specified period of service are recognised as services are received during the vesting period with a corresponding increase in equity.

(S) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

HAWKLEY OIL AND GAS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

KEY ESTIMATES - IMPAIRMENT

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using fair value less cost to sell or value-in-use calculations which incorporate various key assumptions.

KEY JUDGEMENTS - SHARE-BASED PAYMENT TRANSACTIONS

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes method. The related assumptions are detailed in note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

KEY JUDGMENTS - EXPLORATION AND EVALUATION EXPENDITURE

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at nil.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

2 PROFIT FOR THE YEAR

(A) REVENUE AND OTHER INCOME

	2014	2013
	\$	\$
Other revenue:		
Interest revenue	362,510	310,407
Other revenue	38,628	557,816
	<u>401,138</u>	<u>868,223</u>
Other income:		
Recovery of loan previously written off	-	5,000

(B) EXPENSES

	2014	2013
	\$	\$
Depreciation, amortisation and impairment:		
Depreciation expenses (included in other expenses)	2,453	12,572
Amortisation expenses (included in cost of sales)	3,589,282	1,528,173
Impairment expense - Exploration assets (included in other expenses)	9,715,284	8,718,058
Impairment expense – P,P&E / Gas Properties (included in other expenses)	2,994,466	-
Impairment expense - Loan (included in other expenses)	48,056	-
	<u>16,349,541</u>	<u>10,258,803</u>
Administrative expenses (included in other expenses):		
Corporate and other expenses	1,536,376	854,577
Travel and accommodation expenses	248,859	300,289
	<u>1,785,235</u>	<u>1,154,866</u>
Employee benefits expense (included in other expenses):		
Wages and salaries	356,529	107,626
Share Based Payments	(20,724)	249,134
Superannuation	4,810	22,341
	<u>340,615</u>	<u>379,101</u>
Minimum lease payments:		
Minimum lease payments	157,687	152,349
	<u>157,687</u>	<u>152,349</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

2 PROFIT FOR THE YEAR (CONTINUED)

(B) EXPENSES (CONTINUED)

The impairment expenses related to capitalised exploration and evaluation expenditure. The decision to impair the amount was based on suspending operations at a well to which the exploration and evaluation costs related.

3 INCOME TAX EXPENSE/(INCOME)

(A) THE COMPONENTS OF TAX EXPENSE/(INCOME) COMPRISE:

	2014	2013
	\$	\$
Current tax	235,043	55,451
Deferred tax	(1,166,207)	(884,218)
	<u>(931,164)</u>	<u>(828,767)</u>

(B) THE PRIMA FACIE TAX ON PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX IS RECONCILED TO THE INCOME TAX AS FOLLOWS:

	2014	2013
	\$	\$
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2013: 30%)	<u>(7,339,862)</u>	<u>(2,252,252)</u>
- Deferred tax assets not previously recognised now brought to account	-	(125,786)
- Effects of differences in global tax rates	2,434,795	650,511
- Effects of differences in foreign exchange rates	(195,948)	-
- Effects of change in tax rate in Ukraine	183,667	-
- Share based payment	(6,217)	74,740
- Non deductible expenses/non assessable income	11,040	(2,760)
- Temporary differences not recognised as a deferred tax asset	3,497,723	-
- Current year losses not recognised as a deferred tax asset	483,638	826,781
- Income tax benefit	<u>(931,164)</u>	<u>(828,767)</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

4 DEFERRED TAX ASSETS AND LIABILITIES

	ASSETS		LIABILITIES		TOTAL	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Exploration & evaluation expenditure and depreciable plant and equipment	3,403,107	-	-	(1,297,435)	3,403,107	(1,297,435)
Prepayments	-	-	(1,482)	(842)	(1,482)	(842)
Provisions	34,827	12,305	-	-	34,827	12,305
Accruals	55,511	110,623	-	-	55,511	110,623
Receivables	5,760	9,142	-	-	5,760	9,142
Deferred tax assets not recognised	(3,497,723)	-	-	-	(3,497,723)	-
Total	1,482	132,070	(1,482)	(1,298,277)	-	(1,166,207)

	30 JUNE 2013	RECOGNISED	30 JUNE 2014
	\$	IN INCOME	\$
Exploration and evaluation and depreciation on plant and equipment	(1,297,435)	4,700,542	3,403,107
Prepayments	(842)	(640)	(1,482)
Provisions	12,305	22,522	34,827
Accruals	110,623	(55,112)	55,112
Deferred tax assets not recognised	-	(3,497,723)	(3,497,723)
Receivables	9,142	(3,382)	5,760
	<u>(1,166,207)</u>	<u>1,166,207</u>	<u>-</u>

Estimated unused tax losses at 30 June 2014 of \$3,455,044 (2013: \$2,971,406) have not been recognised as a deferred tax asset as the future recovery of these losses is subject to the entities satisfying requirements imposed by the relevant regulatory authorities in the respective jurisdictions in which the Group operates. Other temporary differences of \$34,946 have also not been recognised as a deferred tax asset. The benefits of deferred tax assets not brought to account will only be brought to account if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and
- The conditions of deductibility imposed by the relevant tax legislation continue to be complied with and no changes in tax legislation adversely affect the Group in realising the benefit

5 CASH AND CASH EQUIVALENTS

	2014	2013
	\$	\$
Cash at bank	745,318	2,333,977
	<u>745,318</u>	<u>2,333,977</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

6 TRADE AND OTHER RECEIVABLES

	2014	2013
	\$	\$
CURRENT		
Trade receivables	447,615	1,374,873
Loan to Ukrgeoinvest - related party *	1,421,214	-
Other receivables	414,822	95,339
	<u>2,283,651</u>	<u>1,470,212</u>

AGED ANALYSIS

The ageing analysis of current receivables is as follows:

	2014	2013
	\$	\$
0-30 days	447,615	1,470,212
	<u>447,615</u>	<u>1,470,212</u>

	2014	2013
	\$	\$
NON-CURRENT		
Loan to employee	11,690	12,027
Loan to Ukrgeoinvest - related party *	-	2,159,392
Loan to KMDC Holdings Korea	-	48,057
Total non-current trade and other receivables	<u>11,690</u>	<u>2,219,476</u>

FAIR VALUE AND RISK EXPOSURES

- i) Due to the short term nature of these receivables, their carrying value approximates their fair value;
- ii) The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security;
- iii) Disclosure on foreign exchange and interest rate risk can be found at Note 18.
- iv) Other receivables generally have repayments between 30 and 90 days.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

6 TRADE AND OTHER RECEIVABLES (CONTINUED)

FAIR VALUE AND RISK EXPOSURES (CONTINUED)

* - Loan made in several tranches. Fair value of the interest free loans was determined with reference to Ukraine term deposit interest rate. The Group holds no assets as security in relation to these loans. Subsequent to the reporting date, the Group restructured agreements with shareholders of Ukrgeoinvest LLC (holder of the Stoliarovska licence) in relation to finalisation of the acquisition of 100% of the shares of Ukrgeoinvest. The consideration payable is equal to the value of the loan outstanding. The restructured agreements are subject to certain conditions, chief amongst these conditions is receipt of relevant Antitrust clearance issued by the Antimonopoly Committee of Ukraine.

7 INVENTORIES

	2014	2013
	\$	\$
CURRENT		
At cost:		
Raw materials and stores	278,427	157,738
	<u>278,427</u>	<u>157,738</u>

8 PROPERTY, PLANT AND EQUIPMENT

	2014	2013
	\$	\$
PLANT AND EQUIPMENT		
- at cost	4,712,961	5,856,444
- accumulated depreciation	(553,597)	(158,745)
- accumulated impairment	(1,686,221)	(250,000)
	<u>2,473,143</u>	<u>5,447,699</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(A) MOVEMENTS IN CARRYING AMOUNTS

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	PLANT AND EQUIPMENT
	\$
Balance at 30 June 2013	
Balance at the beginning of year	5,447,699
Additions	1,083,575
Depreciation expense	(394,852)
Impairment expense	(1,436,221)
Foreign exchange	(2,227,058)
	<hr/>
Balance at 30 June 2014	2,473,143
	<hr/>
Balance at 30 June 2012	
Balance at the beginning of year	367,797
Additions	4,686,147
Depreciation expense	(150,770)
Foreign exchange	544,525
	<hr/>
Balance at 30 June 2013	5,447,699
	<hr/>

During the year ended 30 June 2014, an impairment of \$1,436,221 (2013: nil) was made to write property, plant and equipment to its recoverable amount. The impairment related to a downgrade of reserves on the Soroachynska cash generating unit. Recoverable amount was determined through value-in-use by discounting expected future cash flows. A pre-tax discount rate of 23% was applied in the value in use calculation.

9 OTHER ASSETS

	2014	2013
	\$	\$
CURRENT		
Prepayments	83,735	87,679
	<hr/>	<hr/>
	83,735	87,679
	<hr/>	<hr/>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

10 DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

The following table details the movement in deferred exploration and evaluation expenditure reported in the statement of financial position during the period.

	2014	2013
	\$	\$
Carrying amount at beginning of year	12,679,565	18,035,581
Expenditure	-	2,335,309
Impairments	(9,276,889)	(8,718,057)
Foreign exchange impact	(2,100,255)	1,026,732
	<u>1,302,421</u>	<u>12,679,565</u>

The recoupment of deferred exploration and evaluation costs carried forward is dependent upon the successful development and commercialisation or sale of the areas of interests being explored and evaluated.

11 GAS PROPERTIES

	2014	2013
	\$	\$
Carrying amount at beginning of year	6,753,742	7,997,594
Additions	5,060	783,007
Amortisation expense	(3,177,332)	(2,594,382)
Impairment expense	(790,144)	-
Foreign exchange impact	(1,432,042)	567,523
	<u>1,359,284</u>	<u>6,753,742</u>

During the year ended 30 June 2014, an impairment of \$790,144 (2013: nil) was made to write gas properties to its recoverable amount. The impairment related to a downgrade of reserves on the Soroachynska cash generating unit. Recoverable amount was determined through value-in-use by discounting expected future cash flows. A pre-tax discount rate of 23% was applied in the value in use calculation.

12 TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
CURRENT		
Other payables	659,397	1,151,668
Trade payables	54,056	73,329
	<u>713,453</u>	<u>1,224,997</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

13 PROVISIONS

	2014	2013
	\$	\$
NON-CURRENT		
Carrying amount at beginning of year	315,108	42,837
Accretion	26,657	241,018
Foreign exchange impact	(111,156)	31,253
	<u>230,306</u>	<u>315,108</u>

Provision relates to the cost of restoration and rehabilitation of Ukraine gas assets upon closure of plant. Outflow is anticipated to occur once production has been completed. The Group currently holds a 20 year production licence over its producing asset.

14 ISSUED CAPITAL

	2014	2013
	\$	\$
287,181,427 (2013: 287,181,427) Ordinary shares	42,156,932	42,156,932
Share issue costs written off against share premium	(4,084,881)	(4,084,881)
	<u>38,072,051</u>	<u>38,072,051</u>

ORDINARY SHARES

	2014	2013
	NO.	NO.
At the beginning of the reporting period	287,181,427	285,531,427
Shares issued during the year:		
Exercising rights	-	250,000
Settlement of obligation	-	1,400,000
At reporting date	<u>287,181,427</u>	<u>287,181,427</u>

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

14 ISSUED CAPITAL (CONTINUED)

OPTIONS

- (i) For information relating to Hawkley Oil and Gas Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 26.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 20.

CAPITAL MANAGEMENT

The primary objective of the Group's capital management program is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for the other stakeholders and maintain an optimal capital structure to reduce the cost of capital. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policy or processes for managing capital during the years ended 30 June 2013 and 30 June 2014.

15 RESERVES

(A) FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

(B) CONVERTIBLE NOTE EQUITY RESERVE

The equity reserve arose on issue and subsequent buy-back of convertible note issued by Ukraine Gas Investments Limited.

(C) SHARE BASED PAYMENT RESERVE

The share based payment reserve records items recognised as expenses on valuation of employee share options and performance rights.

16 EARNINGS PER SHARE

	2014	2013
	\$	\$
Earnings used to calculate basic EPS	(23,535,043)	(6,678,738)
Earnings used in calculation of diluted EPS	(22,535,043)	(6,678,738)

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

16 EARNINGS PER SHARE (CONTINUED)

Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2014	2013
	NO.	NO.
Weighted average number of ordinary shares outstanding during the year - No. used in calculating basic EPS	287,181,427	286,823,093
Number of performance rights outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>287,181,427</u>	<u>286,823,093</u>

Because the Group made a loss for the year ended 30 June 2014, diluted earnings per share is not reflected for unexercised options (16,000,000) or performance rights (1,000,000) as the result is anti-dilutive in nature.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

17 CAPITAL AND LEASING COMMITMENTS

Drilling commitments:

Payable:

- no later than 12 months

198,225	2,436,449
198,225	2,436,449

18 FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from related parties.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	NOTE	2014 \$	2013 \$
Financial Assets			
Cash and cash equivalents	5	745,318	2,333,977
Trade and other receivables	6	2,295,341	3,689,688
Total Financial Assets		3,040,659	6,023,665
Financial Liabilities			
Trade and other payables	12	713,453	1,224,997
Total Financial Liabilities		713,453	1,224,997

The carrying amounts of these financial instruments approximate their fair values.

FINANCIAL RISK MANAGEMENT POLICIES

Exposure to key financial risks is managed in accordance with the Group's risk management policy with the objective to ensure that the financial risks inherent in oil and gas exploration activities are identified and then managed or kept as low as reasonably practicable.

The main financial risks that arise in the normal course of business are market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Different methods are used to measure and manage these risk exposures. Liquidity risk is monitored through the ongoing review of available cash and future commitments for exploration expenditure. Exposure to liquidity risk is limited by anticipating liquidity shortages and ensure capital can be raised in advance of shortages. Interest rate risk is managed by limiting the amount interest bearing loans entered into by the Group. It is the Board's policy that no speculative trading in financial instruments be undertaken so as to limit exposure to price risk.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Primary responsibility for identification and control of financial risks rests with the Chief Executive Officer and Company Secretary, under the authority of the Board. The Board is appraised of these risks from time to time and agrees any policies that may be undertaken to manage any of the risks identified.

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each financial instrument are disclosed in Note 1 to the financial statements. The carrying values less the impairment allowance for receivables and payables are assumed to approximate fair values due to their short term nature. Cash and cash equivalents are subject to variable interest rates.

SPECIFIC FINANCIAL RISK EXPOSURES AND MANAGEMENT

(A) CREDIT RISK

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

The Group trades only with recognised, creditworthy third parties.

The Group's customers pay in advance so consequently no significant exposure to bad debts or other credit risks.

With respect to credit risk arising from financial assets, which comprise cash and cash equivalents and receivables, the exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. At balance date cash and deposits were held with National Australia Bank.

(B) LIQUIDITY RISK

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash reserves to meet the ongoing operational requirements of the business. It is the Group's policy to maintain sufficient funds in cash and cash equivalents. Furthermore, the Group monitors its ongoing research and development cash requirements and raises equity funding as and when appropriate to meet such planned requirements. The Group has no undrawn financing facilities. Trade and other payables, the only financial liability of the Group, are due within 3 months.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial liability and financial asset maturity analysis

	WITHIN 1 YEAR		1 TO 5 YEARS		TOTAL CONTRACTUAL CASH FLOW	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables	713,453	1,224,997	-	-	713,453	1,224,997
Total contractual outflows	713,453	1,224,997	-	-	713,453	1,224,997
Financial assets - cash flows realisable						
Trade and other receivables	2,283,651	1,470,212	11,690	2,219,476	2,295,341	3,689,688
Net (outflow)/inflow on financial instruments	1,570,198	245,215	11,690	2,219,476	1,581,888	2,464,691

(C) MARKET RISK

i. Interest rate risk

The Group's cash-flow interest rate risk primarily arises from cash at bank and deposits subject to market bank rates. At balance date, the Group does not have any borrowings. The Group does not enter into hedges. An increase/ (decrease) in interest rates by 1.25% during the whole of the respective periods would have led to an increase/(decrease) in both equity and losses by \$29,175/(\$29,175). 1.25% was thought to be appropriate because it represents the 125 basis point change in Australian interest rates in the 12 months to 30 June 2014.

ii. Foreign exchange risk

As a result of significant operations in the Ukraine and significant payments and receipts denominated in United States Dollars, the Group's statement of financial position can be affected significantly by movements in the UAH/AUD and USD/AUD exchange rates. There is no formal policy in place to protect or hedge the Group from adverse movements in foreign currency rates.

Foreign currency risk sensitivity analysis

The following sensitivity analysis is based on foreign currency risk exposures in existence at the reporting date. The 10% sensitivity (2013: 10%) is based on reasonably possible changes, over a financial year, using an observed range of actual historical rates, for the Australian dollar to the US dollar, and Ukraine Hryvnia to the US dollar, for the preceding year.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2014	2013
	\$	\$
Post tax profit - higher / (lower)		
- FX +10% (2012: +10%)	(1,561,577)	(1,322,933)
- FX -10% (2012: -10%)	1,902,926	2,240,447
Equity - higher / (lower)		
- FX +10% (2012: +10%)	-	-
- FX -10% (2012: -10%)	-	-

19 OPERATING SEGMENTS

IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category, operating segments are therefore determined on the same basis. The Group's sole reporting segment is the oil and gas business segment located wholly with Ukraine.

The accounting policies for internal reporting purposes are consistent with those applied in the preparation of the financial report.

TYPES OF PRODUCTS AND SERVICES

The Group earns revenue solely from the sale of gas.

GEOGRAPHICAL INFORMATION

The Group's production and sale of gas operates predominately in one geographical segment being Ukraine.

	2014		2013	
	REVENUE	NON-CURRENT T ASSETS	REVENUE	NON-CURRENT T ASSETS
Ukraine	8,973,880	7,370,985	14,244,860	27,039,660
Australia	45,593	1,918	868,223	60,822
	9,019,473	7,372,903	15,113,083	27,100,482

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

19 OPERATING SEGMENTS (CONTINUED)

MAJOR CUSTOMERS

During the years ended 30 June 2014 and 30 June 2013, revenue received from the sale of gas and condensate comprised purchases by the following buyers who each on a proportionate basis equated to greater than 10% of total sales for the period (nil where less than 10%):

	2014	2013
	\$	\$
Customer 1	7,650,030	-
Customer 2	-	8,643,427
Customer 3	-	2,978,739

20 INTERESTS OF KEY MANAGEMENT PERSONNEL

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014.

The totals of remuneration paid to key management personnel of the company and the Group during the year are as follows:

	2014	2013
	\$	\$
Short-term employee benefits	1,006,899	775,709
Post-employment benefits	25,315	20,679
Share-based payments	32,038	96,456
	<u>1,064,252</u>	<u>892,844</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

20 INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

KEY MANAGEMENT PERSONNEL OPTIONS AND RIGHTS HOLDINGS

The number of options over ordinary shares held by each key management person of the Group during the financial year is as follows:

	GRANTED AS			BALANCE			VESTED	VESTED
	BALANCE	REMUNERA	EXPIRED	ON	BALANCE	VESTED	AND	AND
	AT	-TION	DURING	RESIGNATI	AT END OF	DURING	EXERCISAB	UNEXERCIS
	BEGINNING	DURING	DURING	-ON	YEAR	THE YEAR	-LE	-ABLE
	OF YEAR	THE YEAR	THE YEAR					
30 JUNE 2014								
Mr Glenn Featherby	-	-	-	-	-	-	-	-
Mr David Riekie	3,000,000	-	-	(3,000,000)	-	-	-	-
Mr Richard Reavley	4,000,000	-	(4,000,000)	-	-	-	-	-
Lord Richard Risby	1,000,000	1,000,000	-	-	2,000,000	-	1,000,000	-
Mr Graham Lyon	1,000,000	2,000,000	-	-	3,000,000	-	1,000,000	-
Mr Bill Foster	-	2,000,000	-	-	2,000,000	-	-	-
	9,000,000	5,000,000	(4,000,000)	(3,000,000)	7,000,000	-	2,000,000	-

	GRANTED AS			BALANCE			VESTED	VESTED
	BALANCE	REMUNERA	EXERCISED	ON	BALANCE	VESTED	AND	AND
	AT	-TION	DURING	RESIGNATI	AT END OF	DURING	EXERCISAB	UNEXERCIS
	BEGINNING	DURING	DURING	-ON	YEAR	THE YEAR	-LE	-ABLE
	OF YEAR	THE YEAR	THE YEAR					
30 JUNE 2013								
Mr Glenn Featherby	-	-	-	-	-	-	-	-
Mr David Riekie	3,000,000	-	-	-	3,000,000	-	3,000,000	-
Mr Richard Reavley	4,000,000	-	-	-	4,000,000	-	4,000,000	-
Lord Richard Risby	-	1,000,000	-	-	1,000,000	-	-	-
Mr Graham Lyon	-	1,000,000	-	-	1,000,000	-	-	-
	7,000,000	2,000,000	-	-	9,000,000	-	7,000,000	-

KEY MANAGEMENT PERSONNEL SHAREHOLDINGS

The number of ordinary shares in Hawkley Oil and Gas Limited held by each key management person of the Group during the financial year is as follows:

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

20 INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

KEY MANAGEMENT PERSONNEL SHAREHOLDINGS (CONTINUED)

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATI ON DURING THE YEAR	ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR	BALANCE ON RESIGNATIO N	BALANCE AT END OF YEAR
30 June 2014					
Mr Glenn Featherby	26,239,377	-	-	-	26,239,377
Mr David Riekie	238,514	-	-	(238,514)	-
Mr Richard Reavley	12,760,410	-	-	-	12,760,410
Lord Richard Risby	-	-	-	-	-
Mr Graham Lyon	-	-	-	-	-
Bill Foster	-	-	-	-	-
	39,238,301	-	-	(238,514)	38,999,787

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATI ON DURING THE YEAR	ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR	BALANCE ON RESIGNATIO N	BALANCE AT END OF YEAR
June 30, 2013					
Mr Glenn Featherby	26,239,377	-	-	-	26,239,377
Mr David Riekie	238,514	-	-	-	238,514
Mr Richard Reavley	12,760,410	-	-	-	12,760,410
Lord Richard Risby	-	-	-	-	-
Mr Graham Lyon	-	-	-	-	-
	39,238,301	-	-	-	39,238,301

OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

There have been no other transactions involving equity instruments other than those described in the tables above.

There are no loans to or from key management personnel at year end.

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

21 AUDITORS' REMUNERATION

	2014	2013
	\$	\$
Remuneration of the auditor of the parent entity for:		
- Audit services	111,191	93,480
- Taxation advice	-	25,910
	<u>111,191</u>	<u>119,390</u>

22 CONTROLLED ENTITIES

NAME	COUNTRY OF INCORPORATION	PERCENTAGE OWNED (%)*	PERCENTAGE OWNED (%)*
		2014	2013
Legal Parent Entity:			
Hawkley Oil and Gas Limited	Australia		
Accounting Parent Entity:			
Janita Global Limited	B.V.I.		
Subsidiaries of legal parent entity:			
Janita Global Ltd	B.V.I.	100	100
Ukraine Investments Ltd	Australia	100	100
Ukraine Gas Investments Ltd	Australia	100	100
Prime Gas LLC	Ukraine	100	100

* Percentage of voting power is in proportional to ownership

23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

At 30 June 2014 the potential exposure to liabilities that might arise in relation to deductibility of exploration costs resulting from additional CPT liabilities and penalties amounts to AUD\$48,455.

24 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transaction with related parties:

INTERCOMPANY LOANS

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

24 RELATED PARTY TRANSACTIONS (CONTINUED)

Janita Global Limited has a loan receivable from Prime Gas LLC in the amount of AUD\$17,151,844 (2013: AUD\$17,358,142). There is an interest receivable component of AUD\$5,141,391 (2013: AUD\$4,171,395) that is over and above this amount.

Hawkley Oil and Gas Limited has made loan to Janita Global Limited of AUD\$11,005,719 (2013: AUD\$10,825,046) which is interest free.

There an amount of AUD\$311,790 (2013: AUD\$445,478) charged by Hawkley Oil and Gas Limited to Ukraine Investments Limited and Ukraine Gas Investments Limited which represents management fees charged to recover costs incurred by Hawkley in administering both subsidiaries.

(A) RELATED PARTY BALANCES

	2014	2013
	\$	\$
CURRENT		
Amount receivable from Ukrgeoinvest:		
- Trade and other receivables	438,056	835,523
- Financial assets (non-current)	1,818,869	2,159,392
Total	2,256,925	2,994,915

(B) RELATED PARTY TRANSACTIONS

	2014	2013
	\$	\$
Ukrgeoinvest		
Sales	7,650,030	710,316
Finance expenses	41,865	907,543
Finance income	322,024	110,864

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

25 CASH FLOW INFORMATION

(A) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH PROFIT AFTER INCOME TAX

	2014	2013
	\$	\$
Net income/(loss) for the period	(23,535,043)	(6,678,738)
Non-cash flows in profit		
Share based payments	(20,724)	249,134
Foreign exchange (gains)/losses	7,465,207	312,151
Depreciation and amortisation	3,591,735	1,540,745
Impairment	12,757,806	8,718,058
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	1,394,348	1,494,561
(Increase)/decrease in prepayments	3,944	290,366
(Increase)/decrease in inventories	(120,689)	(108,534)
Increase/(decrease) in trade payables and accruals	(490,982)	(751,454)
Increase/(decrease) in income taxes payable	(33,489)	(519,697)
Increase/(decrease) in deferred taxes payable	(1,166,207)	(884,219)
Increase/(decrease) in provisions	(84,499)	209,208
	<u>(238,593)</u>	<u>3,871,581</u>

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

26 SHARE-BASED PAYMENTS

On 29 November 2013, the Group granted 5,000,000 options to directors. Lord Risby, a director of the company, received 1,000,000 options, Mr Lyon received 2,000,000 options and Mr Foster received 2,000,000 options. Using the Black and Scholes Option valuation methodology, the fair value of the options issued were calculated using the following inputs.

Number of options:	5,000,000	Risk free interest rate:	3.43%
Exercise price:	\$0.10	Share price at date of issue:	\$0.019
Expected exercise date:	30 September 2018	Expected volatility	89.7%
Each option was valued at	\$0.0085		

On 17 January 2014, the Group granted 9,000,000 options to an employee. Using the Black and Scholes Option valuation methodology, the fair value of the options issued were calculated using the following inputs.

Number of options:	9,000,000	Risk free interest rate:	3.24%
Exercise price:	\$0.10	Share price at date of issue:	\$0.024
Expected exercise date:	30 September 2018	Expected volatility	92%
Each option was valued at	\$0.011		

For detail on the total expense arising from share based payments see note 2(b).

A summary of the movements of all company options issued is as follows:

	NUMBER	WEIGHTED AVERAGE EXERCISED PRICE
Options outstanding as at June 30, 2012	39,797,716	\$ 0.24
Granted	2,000,000	\$ 0.26
Expired	(2,290,967)	\$ 0.27
Options outstanding as at 30 June 2013	39,506,749	\$ 0.24
Granted	14,000,000	\$ 0.10
Expired	(37,506,749)	\$ (0.24)
Options outstanding as at 30 June 2014	16,000,000	\$ 0.12

The weighted average remaining contractual life of options outstanding at year end was 3.84 years.

A summary of the movements of all company performance rights issued is as follows:

Performance Rights outstanding at 30 June 2012	1,750,000
Granted	-
Expired	-
Exercised	(250,000)
Performance Rights outstanding at 30 June 2013	1,500,000
Granted	-

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

26 SHARE-BASED PAYMENTS (CONTINUED)

Expired	(500,000)
Exercised	-
Performance Rights outstanding at 30 June 2014	1,000,000

27 EVENTS AFTER THE END OF THE REPORTING PERIOD

Other than as reported below, no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

In August 2014, the Ukrainian Government passed emergency budget legislation to significantly increase production taxes for independent oil and gas companies from August 1st to December 31st 2014. The royalty rates for gas has approximately doubled to 55%. It is currently anticipated that the taxes will revert to previous levels at the end of this period.

28 PARENT ENTITY

The following information has been extracted from the books and records of the legal parent, Hawkley Oil and Gas Limited and has been prepared in on the same basis as the consolidated financial statements except as follows:

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

	2014	2013
	\$	\$
Statement of Financial Position		
Assets		
Current assets	805,358	1,940,583
Non-current assets	3,601,917	44,339,634
Total Assets	<u>4,407,275</u>	<u>46,280,217</u>
Liabilities		
Current liabilities	56,773	42,626
Total Liabilities	<u>56,773</u>	<u>42,626</u>
Equity		
Issued capital	60,020,767	60,020,766
Accumulated losses	(60,535,086)	(18,649,074)
Reserves	4,864,821	4,865,899
Total Equity	<u>4,350,502</u>	<u>46,237,591</u>

Statement of Comprehensive Income

HAWKLEY OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

28 PARENT ENTITY (CONTINUED)		
Profit /(loss) for the year	(41,886,012)	(2,591,192)
Total comprehensive income	<u>(41,886,012)</u>	<u>(2,591,192)</u>

CONTINGENT LIABILITIES

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

29 COMPANY DETAILS

The registered office and principal place of business of the company is:

Hawkley Oil and Gas Limited
Suite 3 / Level 3 1292 Hay Street
West Perth WA 6005

Hawkley Oil and Gas Limited

Directors' Declaration

In accordance with a resolution of the directors of Hawkley Oil and Gas Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the Board



Glenn Featherby
Director
30 September 2014

Independent auditor's report to the members of Hawkley Oil and Gas Limited

Report on the financial report

We have audited the accompanying financial report of Hawkley Oil and Gas Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

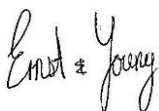
- a. the financial report of Hawkley Oil and Gas Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

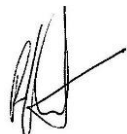
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Hawkley Oil and Gas Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



RJ Curtin

Partner

Perth

30 September 2014