

hawkley OIL & GAS

annual report
TWENTY **FOURTEEN**

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DIRECTORS

Mr Glenn Featherby
Executive Chairman

Mr Anthony Reilly
Non-Executive Director

Mr Bill Foster
Non-Executive Director

COMPANY SECRETARY

Mr Murray Wylie

REGISTERED OFFICE

Suite 3 / Level 3, 1292 Hay Street,
West Perth WA 6005
Phone +61 8 9226 3211
Fax +61 8 9322 4073
Website www.hawkeyoilandgas.com

PRINCIPAL PLACE OF BUSINESS

Suite 3 / Level 3, 1292 Hay Street
West Perth WA 6005
Phone +61 8 9226 3211
Fax +61 8 9322 4073

STOCK EXCHANGE

Hawkey Oil and Gas Limited
ASX code – HOG

OUR VISION

Hawkey's vision is to create a world-class, multi-billion dollar, independent oil and gas company, with a portfolio of quality assets that will maximise shareholder returns.

AUDITORS

Ernst and Young
11 Mounts Bay Road, Perth WA 6000
Phone +61 8 9429 2222
Fax +61 8 9429 2436

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Phone +61 8 9315 2333
Fax +61 8 9315 2233

BANKERS

National Australia Bank
1238 Hay Street, West Perth WA 6000

SOLICITORS

Steinepreis Paganin
Lawyers and Consultants
Level 4, The Read Building
16 Milligan Street, Perth WA 6000
Phone +61 8 9321 4000
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HAWKLEY OIL AND GAS LIMITED

ABN 68 115 712 162

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► CHAIRMAN'S REPORT

DEAR SHAREHOLDERS

On behalf of the Board of Directors, I am presenting the 2014 Annual Report and Financial Statements for Hawkley Oil & Gas Limited.

It has been a difficult and frustrating year for Hawkley and the broader investment market, particularly with the geo-political events that have unfolded in Ukraine. Against this backdrop, we have maintained reasonably stable production and continued to be cash flow positive. I am pleased to outline our achievements for 2013-2014 and the steps we have taken to improve the Company's position.



Glenn Featherby

OPERATIONS

Fortunately, the political turmoil in Ukraine during 2014 and the hostilities with Russia and separatist movements in eastern Ukraine have not impacted staff safety or gas production. There appears to have been a considerable easing of tensions and hostilities following the announcement of a ceasefire on 5 September 2014, however, the investment in the country continues to be extremely difficult.

The effects of fluctuating exchange rates for the local Ukrainian currency as a result of the political turmoil have been mitigated due to gas sales being based on US\$ prices, however cashflows and profit margins have been impacted by strict capital controls introduced by the Ukraine Government and a temporary hike in gas royalty rates. The Government has stated that the royalty rates will return to the previous levels from 1 January 2015 although this is not certain.

The Company's gas plant commissioned in March 2013 and located only eight kilometres from the 201 well continued to operate with high reliability during the 2014 financial year, providing certainty and security around our ability to be a reliable supplier to our customers.

During the financial year, the Sorochnyska-201 well produced 0.80 Bcf gas and 18,776 Bbls condensate. This represents an average of 2.2 mmscf gas and 51.4 Bbls condensate per day. Since Sorochnyska-201's first production in February 2011, it has produced 5.46 Bcf gas and 169,530 Bbls condensate.

Total income for the financial year was US\$8.3 million, representing a gross profit margin of 11%. At 30 June Hawkley held US\$0.7 million in cash with no debt. Hawkley is in a strong position to withstand difficult market conditions and continue to pursue exploration activities and corporate opportunities in an efficient and prudent manner.

CORPORATE ACTIVITIES

During the year, Hawkley actively sought and assessed potential opportunities to grow and diversify its business. In April 2014, the Company announced that it had been unsuccessful in its bids with Azimuth for Myanmar off-shore oil blocks.

A number of potential new projects were assessed during the year, however, for various reasons no acquisition were concluded.

On 14 October 2014, Hawkley announced the proposed sale of all its subsidiaries, which control all its Ukraine assets, to Black Star Petroleum Limited (ASX: BSP) ("BlackStar"). The proposed sale is subject to satisfactory due diligence by both parties and obtaining requisite shareholder and regulatory approvals. BlackStar is an ASX-listed oil exploration and development company with a 73.07% working interest in an oil project in Banner County, Nebraska USA. The Nebraska Oil project has the potential for early production and revenue and provides geographic and project diversification for Hawkley shareholders.

Hawkley welcomed Mr Bill Foster to its Board in September 2013, replacing Mr David Riekie. Mr Foster's technical and commercial skills and 40 years of experience in the oil and gas industry will provide invaluable expertise to Hawkley as it continues to evaluate and advance growth opportunities. Following the announcement of the proposed sale to BlackStar, Hawkley announced the appointment of Mr Anthony Reilly to the board and the resignations of its London-based directors: Mr Richard Reavley, Mr Graham Lyon and Lord Risby.

The Company also successfully implemented cash management and cost reduction strategies including the closure of the London corporate office, and reductions in overheads, staff and management costs.

► CHAIRMAN'S REPORT (CONTINUED)

OUTLOOK

Hawkey is seeking joint venture or farm in opportunities to continue exploration on all 3 licences it currently holds in Ukraine. The current state of equity markets dictates that a preferred route to growth in new areas will most likely be through project-level partnerships with cornerstone investors. The Company's strategy is to maintain a low cost structure whilst continuing to pursue joint venture and merger opportunities.

I would like to extend my thanks to all our employees and directors for their contribution and all our shareholders for their support in 2013-2014. In particular, I would like to acknowledge the contributions of the outgoing directors.



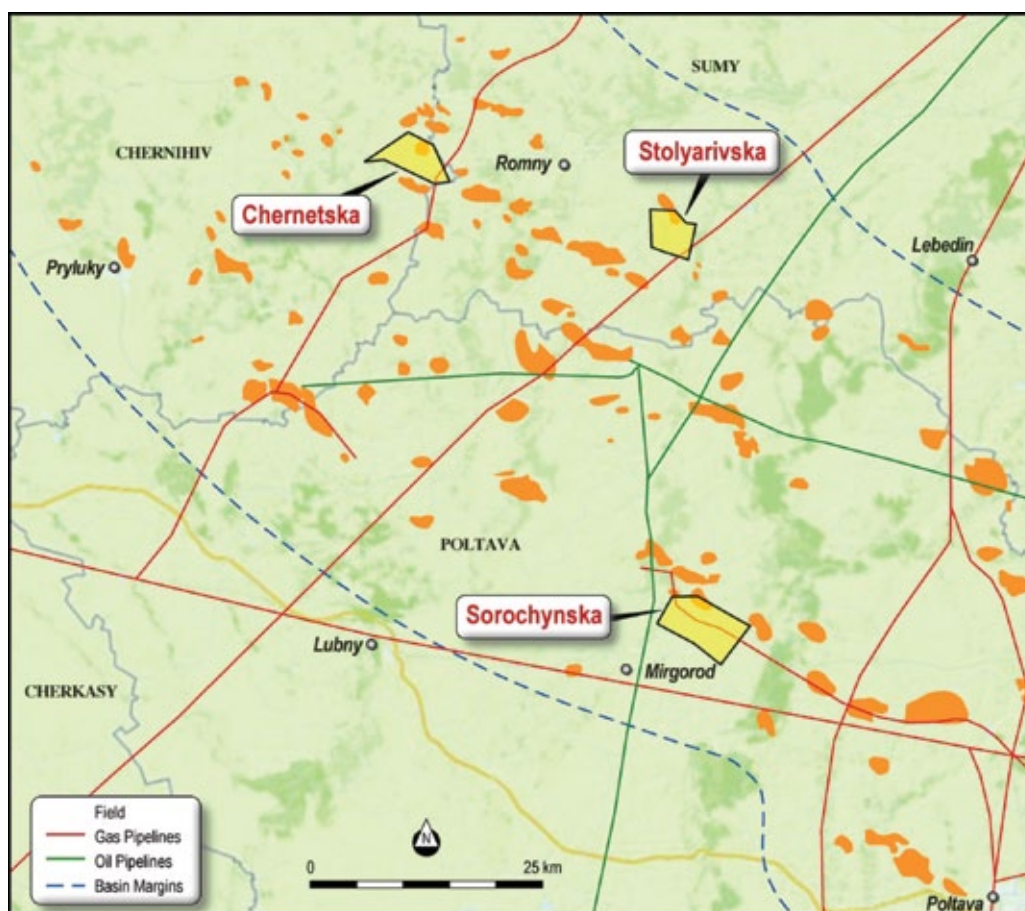
Glenn Featherby
CHAIRMAN

► KEY HIGHLIGHTS

- Successful installation and commissioning of compression on Sorochnyska-201 well
- Implementation of cost reduction strategies including closure of London office, management reductions and Board restructure
- Stable production and cash flow from Sorochnyska-201
- Announcement of proposed sale of Ukraine assets to BlackStar

► PROJECT LOCATIONS

Hawkey's projects are situated in the Dnieper-Donets Basin, which contains the bulk of Ukraine's proven hydrocarbon reserves and current production from gas and gas condensate fields.





► OPERATIONS REVIEW

Hawkey Oil & Gas Limited, listed on the Australian Securities Exchange, is an exploration, development and production company with 100 per cent owned assets in Ukraine's prolific Dnieper-Donets Basin. With a focus on emerging markets, Hawkey's vision is to create a world-class independent oil and gas company with a portfolio of quality producing assets in world leading hydrocarbon basins.

The Company's holdings include the producing Sorochynska asset, with a 20-year production licence; the Stoliarovska asset, with a 20-year production licence, the Chernetska asset, with a five-year exploration and pilot production licence; and a 100% owned gas plant.

During the June quarter, Hawkey completed the installation and commissioning of gas compression at the Sorochynska-201 well with minimal disruption to production. Post commissioning, production has stabilised at 2.1 mmscf/gpd and 40 barrels of condensate per day.

The company continued to achieve strong production from the Sorochynska-201 well, which produce 0.80 Bcf gas and 18,776 Bbls condensate during the financial year. This represents an average of 2.2 mmscf gas and 51.4 Bbls condensate per day. From Sorochynska-201's first production in February 2011 through to August 2014, it has produced 5.46 Bcf gas and 169,530 Bbls condensate.

Given the scale of the geo-political events occurring in the Ukraine this year, Hawkey is thankful that all staff remain safe and that there has been minimal impact on the Company's Ukrainian operations. Receipts for gas and condensate sales are US dollar denominated which mitigates ongoing currency risk. Capital controls established by the Ukrainian government remain in place in an effort to safeguard the economy and protect foreign exchange reserves and cash flows and operating margins have been impacted by temporary increases in royalty rates which are expected to return to normal on 1 January 2015.

With markets currently assigning little or no value to exploration acreage, Hawkey's business development strategy has focused on maximizing value from its current assets through joint venture and farm in activity and pursuing opportunities that can be accessed without the need to raise significant acquisition capital. The focus was on low cost of entry opportunities such as licensing rounds, production or near term production assets where a funding partner can provide development capital and where the Company's Board and management can leverage significant local knowledge to bring distressed or non-core assets into the portfolio.

Following the escalation of political tensions and conflict between Ukraine and Russia, the Board placed a greater interest on opportunities outside the region to provide geographic and political diversity. The Company teamed with Azimuth to bid on offshore blocks in Myanmar in 2014 but were not successful in their applications.

On 14 October 2014, the Company announced that it had entered into a binding terms sheet for the proposed sale of Hawkey's four wholly owned subsidiaries, which control all of Hawkey's Ukraine operations, to Black Star Petroleum Limited ("BlackStar", ASX: BSP). The proposed sale is subject to a number of standard conditions, including completion of due diligence by both parties and obtaining shareholder and regulatory approvals. The consideration to be paid by BlackStar to Hawkey will be 600,000,000 fully paid BlackStar ordinary shares, which will be distributed directly to Hawkey shareholders.

BlackStar is a Western Australian based oil exploration and development company listed on the ASX. BlackStar has a 73.07% working interest in an oil project covering approximately 10,000 acres in Banner County, Nebraska USA. The Nebraska Oil project represents potential for growth through both vertical and horizontal fracture stimulated wells. The company plans to complete a third well on its leases, further testing the Niobara and Codell Formations with a full core test. The well is currently permitted and can commence in the coming months. This will enable BlackStar to fracture stimulate a total of three wells with initial production anticipated soon after.

Following completion of the proposed sale, Hawkey shareholders will hold approximately 50% of BlackStar. Hawkey shareholders will continue to hold their respective Hawkey shareholdings. Hawkey will continue to be listed on the ASX and opportunities will be sought for the Company. These may comprise projects in the oil and gas sector or a complete change in direction may be appropriate depending on what is in the best interests of shareholders. The costs of maintaining the Company until its future is determined will be kept at a minimum.

Mr Bill Foster joined the Hawkey Board in September 2013 as an Australian-based Non-Executive Director. Mr Foster is a petroleum engineer with more than forty years' experience in the oil and gas industry specialising in operational management, exploration, business development and corporate strategy. He brings considerable technical and commercial expertise and will strengthen and complement the Board's ongoing assessment of new opportunities.

► OPERATIONS REVIEW (CONTINUED)

As part of restructuring following the announcement of the proposed divestment of Hawkey's subsidiaries to BlackStar, Mr Anthony Reilly joined the Board on 14 October 2014 as an Australian-based Non-Executive Director. Mr Reilly has over 20 years experience in financial markets, financial risk management and corporate finance and brings considerable industry experience to Hawkey. At the same time, the London-based directors: Richard Reavley, Graham Lyon and Lord Richard Risby resigned from their positions on the Board.

Hawkey implemented cost reductions during the year to minimise overheads and optimise management of its working capital. These measures included the closure of the London corporate office and reductions in overhead staff. Further savings will result from the above restructuring of the Board and management.

UKRAINE

Ukraine is a modern European country with a clear policy to attract oil and gas investment and expertise.

The oil and gas-rich country has a long history of petroleum exploration, development and production.

There is strong local demand for energy with Ukraine listed as Europe's fourth largest gas market at approximately 2.0 Tcf per year. It is Europe's third largest gas producer at approximately 706 Bcf per year.

Ukraine is the main distribution route for gas from Russia and Central Asia to the west, and a network of major gas trunk lines crosses the area. A pipeline crosses the Chernetska licence and another passes within 30km. The environment supports both upstream and downstream developments through excellent access to local infrastructure and boasts a range of experienced suppliers, service providers and equipment.

Recent geo-political events have severely restricted the investment climate in Ukraine, however, it is envisaged that the situation will revert to normality in the not-too-distant future.

Hawkey has extensive operating experience in the Ukraine and has mitigated in-country risk by participating at a 100 per cent working interest on all of its permits. A strong local team of highly experienced Ukrainian staff and managers in the Kiev office and the site locations where the drilling and production activities are taking place, ensure that production is maintained and that performance of the drilling activities meet expectations.



RESERVE SUMMARY

(as of 13 October 2014)

AGR-TRACS was commissioned to review and revise Hawkely's Sorochynska B18 reserves as of end of financial year 2014.

The 2013 AGR TRACS reserves estimates dated 1st July 2013 were adjusted for the production of 0.8 BCF gas and 18.8 Mstb condensate over the year 1/7/2013 to 30/6/2014 inclusive (see Table 1). Based on the additional production data received, revised forward production forecasts from 1/7/2014 were generated. The new 2014 AGR reserves estimates and the reconciliations with the 2013 estimates are summarised for gas and condensate in Table 2. The reconciliation is done solely on the B-18 Upper sand in the Eastern block where the producing well Sor-201 is located. A compressor was installed at the Sor-201 well site and became operational in April 2014, thus the forward production forecasts take this into account.

| 1/7/2013 RESERVES | GAS VOLUMES, BCF | | | CONDENSATE VOLUMES, MSTB | | |
|---|------------------|------------|------------|--------------------------|------------|------------|
| | 1P | 2P | 3P | 1P | 2P | 3P |
| 1/7/2013 Reserves estimates (AGR TRACS) | | | | | | |
| Cut-off date | 30/6/2016 | 30/11/2020 | 31/10/2022 | 30/6/2016 | 30/11/2020 | 31/10/2022 |
| 2013 Reserves (remaining volumes) | 1.62 | 3.78 | 4.75 | 25.0 | 41.0 | 53.0 |
| Production 1/7/2013 to 30/6/2014 | | | | | | |
| Prod. 1/7/2013 to 30/6/2014 | | 0.80 | | | 18.8 | |
| 1/7/2013 Reserves updated with 1/7/2013 to 30/6/2014 production (i.e. brought to 1/7/2014) | | | | | | |
| 1/7/2013 updated Reserves (remaining volumes per 1/7/2014) | 0.82 | 2.98 | 3.95 | 6.2 | 22.2 | 34.2 |

Table 1: 1/7/2013 AGR TRACS reserves estimates updated with 1/7/2013 to 30/6/2014 production

| DESCRIPTION | GAS VOLUMES, BCF | | | CONDENSATE VOLUMES, MSTB | | |
|---|------------------|-------|-------|--------------------------|------|------|
| | 1P | 2P | 3P | 1P | 2P | 3P |
| 1/7/2014 Reserves | 1.06 | 1.83 | 2.88 | 19.1 | 30.6 | 42.4 |
| 1/7/2013 Reserves updated with 1/7/2013 to 30/6/2014 production | 0.82 | 2.98 | 3.95 | 6.2 | 22.2 | 34.2 |
| 1/7/2014 increase (+ve) or decrease (-ve) over 1/7/2013 estimates | +0.24 | -1.15 | -1.17 | +12.9 | +8.4 | +8.2 |

Table 2: 2014 vs. 2013 reconciliation of Sorochynska (Sor-201) gas and cond. reserves

GAS RESERVES

The latest 2014 forecast of 1P estimate of remaining reserves is slightly larger than the adjusted 2013 1P estimate, but the 2014 2P and 3P estimates of remaining gas reserves are less than the corresponding adjusted 2013 reserves. The estimates of 2P and 3P gas in 2013 assumed higher initial gas rates after the planned compressor start than the initial gas rates actually achieved in April 2014 when the compressor became operational.

► RESERVE SUMMARY (CONTINUED)

(as of 13 October 2014)

CONDENSATE RESERVES

The latest condensate production forecast is based on the single relationship of the CGR (Condensate Gas Ratio) with cumulative gas production. The CGR was applied to the forecast gas production rates to derive condensate production rates for each of the three cases, while the AGR TRACS 2013 estimate assumed more pessimistic distinct relationships for the 1P, 2P and 3P condensate forecasts.

COMPETENT PERSONS STATEMENT

AGR TRACS International Ltd is an independent consultancy specialising in petroleum reservoir evaluation and economic analysis. The project was managed and signed off by Nigel Blott (M.Eng.), a TRACS Manager. Mr. Blott, a petroleum engineer and SPE Member, has 30+ years experience from the Middle East, South-East Asia, and NW Europe. AGR TRACS International Limited has conducted valuations for many energy companies and financial institutions.



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FINANCIALREPORT

FOR THE YEAR ENDED 30 JUNE 2014

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DIRECTORS' REPORT

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.

SOROCHYNKA 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 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 Sorochynska 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, Sorochynskaya 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 Sorochynskaya gas plant has operated at an average 99%+ uptime.

► DIRECTORS' REPORT (CONTINUED)

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

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, Hawkey 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 Hawkey's technical team.

Hawkey remains excited by the prospectivity in the block and is considering farm out options in the short to medium term.

GEOPOLITICAL EVENTS

Hawkey's gas production at the Sorochynska 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

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.

► DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

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 Options

26,239,377 ordinary shares

Directorships held in other listed entities during the three years prior to the current year

Forte Energy Limited
Patagonia Gold Plc
Ochre Group Holdings Limited

Special duties

Audit committee, remuneration committee

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

► DIRECTORS' REPORT (CONTINUED)

INFORMATION ON DIRECTORS (CONTINUED)

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

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

► DIRECTORS' REPORT (CONTINUED)

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.

► DIRECTORS' REPORT (CONTINUED)

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 |
| | | | 16,000,000 |

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.

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 |
| | 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 27 of the financial report.

► DIRECTORS' REPORT (CONTINUED)

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.

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 Hawkey 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.

► DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (AUDITED) (CONTINUED)

REMUNERATION POLICY (CONTINUED)

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.

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 |

► DIRECTORS' REPORT (CONTINUED)

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.

| KEY MANAGEMENT PERSONNEL | POSITION HELD AS AT 30 JUNE 2014 | CONTRACT DETAILS (DURATION & TERMINATION) | OPTIONS/ RIGHTS % | PROPORTIONS OF ELEMENTS OF REMUNERATION NOT RELATED TO PERFORMANCE | |
|--------------------------|--|--|-------------------|--|---------|
| | | | | FIXED SALARY/FEEES % | 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.

► DIRECTORS' REPORT (CONTINUED)

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 PENSION AND SUPERAN- NUATION | EQUITY- SETTLED SHARE-BASED PAYMENTS | TERMIN- ATION BENEFITS | TOTAL |
|---------------------------------------|------|------------------------------------|--|---|------------------------------|-----------|
| | | SALARY, FEES AND LEAVE \$ | \$ | OPTIONS/ PERFORM- ANCE RIGHTS \$ | \$ | \$ |
| 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 |
| | 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 |
| | 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)
- 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).

DIRECTORS' REPORT (CONTINUED)

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

| OPTIONS GRANTED | GRANT DETAILS | | | OVERALL | | |
|--------------------|------------------|-----------|---------------------------------|----------|------------|----------|
| | DATE | NO. | VALUE PER OPTION CENTS (NOTE 1) | VESTED % | UNVESTED % | LAPSED % |
| 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:

| | BALANCE AT BEGINNING OF YEAR | GRANTED AS REMUNERATION DURING THE YEAR | EXPIRED DURING THE YEAR | BALANCE ON RESIGNATION | BALANCE AT END OF YEAR | VESTED DURING THE YEAR | VESTED AND EXERCISABLE | VESTED AND UNEXERCISABLE |
|---------------------|------------------------------|---|-------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|
| 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 | – |

► DIRECTORS' REPORT (CONTINUED)

REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

The number of ordinary shares in Hawkey 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 REMUNERATION DURING THE YEAR | ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR | BALANCE ON RESIGNATION | 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:



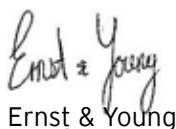
Director:

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

► CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | NOTE | 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) |

► CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 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 |
| 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 | | 7,573,144 | 28,410,287 |

► CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | ORDINARY SHARES \$ | RETAINED EARNINGS \$ | CONVERT- IBLE NOTE EQUITY RESERVE \$ | SHARE BASED PAYMENT RESERVE \$ | FOREIGN CURRENCY TRANS- LATION 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 |

| | ORDINARY SHARES \$ | RETAINED EARNINGS \$ | CONVERT- IBLE NOTE EQUITY RESERVE \$ | SHARE BASED PAYMENT RESERVE \$ | FOREIGN CURRENCY TRANS- LATION 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 |

► CONSOLIDATED STATEMENT OF CASH FLOWS

| | 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 |

This financial report includes the consolidated financial statements and notes of Hawkey 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hawkey 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 issue 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 are 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 Hawkey 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 and 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 are 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 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(A) PRINCIPLES OF CONSOLIDATION (CONTINUED)

Business Combinations (continued)

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 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) INCOME TAX (CONTINUED)

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.

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.

(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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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:

- 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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.

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.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FINANCIAL INSTRUMENTS (CONTINUED)

Classification and subsequent measurement (continued)

(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.

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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) IMPAIRMENT OF ASSETS (CONTINUED)

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 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 |
| | 401,138 | 868,223 |
| Other income: | | |
| Recovery of loan previously written off | – | 5,000 |

(B) EXPENSES

| | | |
|--|------------|------------|
| 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 | – |
| | 16,349,541 | 10,258,803 |
| Administrative expenses (included in other expenses): | | |
| Corporate and other expenses | 1,536,376 | 854,577 |
| Travel and accommodation expenses | 248,859 | 300,289 |
| | 1,785,235 | 1,154,866 |
| 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 |
| | 340,615 | 379,101 |
| Minimum lease payments: | | |
| Minimum lease payments | 157,687 | 152,349 |
| | 157,687 | 152,349 |

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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) |
| | (931,164) | (828,767) |

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

| | | |
|---|-------------|-------------|
| Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2013: 30%) | (7,339,862) | (2,252,252) |
| – 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 | (931,164) | (828,767) |

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) |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

| | 30 JUNE 2013 \$ | RECOGNISED IN INCOME | 30 JUNE 2014 \$ |
|--|--------------------|-------------------------|--------------------|
| 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 |
| | (1,166,207) | 1,166,207 | – |

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 |
| | 745,318 | 2,333,977 |

6 TRADE AND OTHER RECEIVABLES

| | | |
|--|-----------|-----------|
| CURRENT | | |
| Trade receivables | 447,615 | 1,374,873 |
| Loan to Ukrgeoinvest – related party * | 1,421,214 | – |
| Other receivables | 414,822 | 95,339 |
| | 2,283,651 | 1,470,212 |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 TRADE AND OTHER RECEIVABLES (CONTINUED)

Aged analysis

The ageing analysis of current receivables is as follows:

| | 2014 \$ | 2013 \$ |
|--|---------------|------------------|
| 0-30 days | 447,615 | 1,470,212 |
| | 447,615 | 1,470,212 |
| | | |
| 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 | 11,690 | 2,219,476 |

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.

* – 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

| | | |
|--------------------------|---------|---------|
| CURRENT | | |
| At cost: | | |
| Raw materials and stores | 278,427 | 157,738 |
| | 278,427 | 157,738 |

8 PROPERTY, PLANT AND EQUIPMENT

| | | |
|----------------------------|-------------|-----------|
| PLANT AND EQUIPMENT | | |
| – at cost | 4,712,961 | 5,856,444 |
| – accumulated depreciation | (553,597) | (158,745) |
| – accumulated impairment | (1,686,221) | (250,000) |
| | 2,473,143 | 5,447,699 |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) |
| Balance at 30 June 2014 | 2,473,143 |
| 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 |
| Balance at 30 June 2013 | 5,447,699 |

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 Sorochynska 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 |
| | 83,735 | 87,679 |

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 |
| | 1,302,421 | 12,679,565 |

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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 |
| | 1,359,284 | 6,753,742 |

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 Sorochynska 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

| | | |
|----------------|---------|-----------|
| CURRENT | | |
| Other payables | 659,397 | 1,151,668 |
| Trade payables | 54,056 | 73,329 |
| | 713,453 | 1,224,997 |

13 PROVISIONS

| | | |
|--------------------------------------|-----------|---------|
| NON-CURRENT | | |
| Carrying amount at beginning of year | 315,108 | 42,837 |
| Accretion | 26,657 | 241,018 |
| Foreign exchange impact | (111,156) | 31,253 |
| | 230,306 | 315,108 |

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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) |
| | 38,072,051 | 38,072,051 |

Ordinary Shares

| | 2014 No. | 2013 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 | 287,181,427 | 287,181,427 |

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.

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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) |

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

| | 2014 No. | 2013 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 | 287,181,427 | 286,823,093 |

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.

17 CAPITAL AND LEASING COMMITMENTS

Drilling commitments:

| | 2014 \$ | 2013 \$ |
|---------------------------|------------|------------|
| 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 apprised 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

| | 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%) | – | – |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 ASSETS | REVENUE | NON-CURRENT 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 |

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:

| | | |
|------------------------------|-----------|---------|
| Short-term employee benefits | 1,006,899 | 775,709 |
| Post-employment benefits | 25,315 | 20,679 |
| Share-based payments | 32,038 | 96,456 |
| | 1,064,252 | 892,844 |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

| 30 JUNE 2014 | BALANCE AT BEGINNING OF YEAR | GRANTED AS REMUNERATION DURING THE YEAR | EXPIRED DURING THE YEAR | BALANCE ON RESIGNATION | BALANCE AT END OF YEAR | VESTED DURING THE YEAR | VESTED AND EXERCISABLE | VESTED AND UNEXERCISABLE |
|--------------------|------------------------------|---|-------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|
| 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 | – |

| 30 JUNE 2013 | BALANCE AT BEGINNING OF YEAR | GRANTED AS REMUNERATION DURING THE YEAR | EXERCISED DURING THE YEAR | BALANCE ON RESIGNATION | BALANCE AT END OF YEAR | VESTED DURING THE YEAR | VESTED AND EXERCISABLE | VESTED AND UNEXERCISABLE |
|--------------------|------------------------------|---|---------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|
| 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 | – |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Key Management Personnel Shareholdings

The number of ordinary shares in Hawkey 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 REMUN- ERATION DURING THE YEAR | ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR | BALANCE ON RESIGNATION | 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 REMUN- ERATION DURING THE YEAR | ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR | BALANCE ON RESIGNATION | 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.

21 AUDITORS' REMUNERATION

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

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 CONTROLLED ENTITIES

| NAME | COUNTRY OF INCORPORATION | PERCENTAGE OWNED (%)* 2014 | PERCENTAGE OWNED (%)* 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

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 |

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 RELATED PARTY TRANSACTIONS (CONTINUED)

(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 |

25 CASH FLOW INFORMATION

(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax

| | | |
|--|--------------|-------------|
| 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 |
| | (238,593) | 3,871,581 |

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).

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 SHARE-BASED PAYMENTS (CONTINUED)

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 | – |
| 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.

► NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 | 4,407,275 | 46,280,217 |
| Liabilities | | |
| Current liabilities | 56,773 | 42,626 |
| Total Liabilities | 56,773 | 42,626 |
| 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 | 4,350,502 | 46,237,591 |
| Statement of Comprehensive Income | | |
| Profit /(loss) for the year | (41,886,012) | (2,591,192) |
| Total comprehensive income | (41,886,012) | (2,591,192) |

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

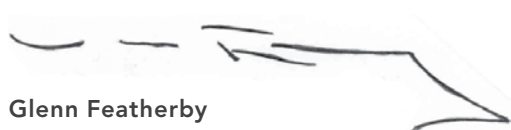
► DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Hawkey 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:

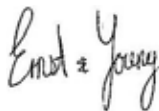
- a. the financial report of Hawkley Oil and Gas Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian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



► CORPORATE GOVERNANCE STATEMENT

BOARD COMPOSITION

The skills, experience and expertise relevant to the position of each director, and board committee member, who is in office at the date of the annual report and their term of office, are detailed in the Director's report.

The independent directors of the Company during the year were Mr David Riekie (resigned 17 September 2013), Lord Risby (resigned 14 October 2014), Mr Graham Lyon (resigned 14 October 2014), Mr Bill Foster (appointed 16 September 2013) and Mr Anthony Reilly (appointed 14 October 2014).

When determining the independent status of a Director the Board used the Guidelines detailed in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Board sets out below its "if not why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

| RECOMMENDATION | | HAWKLEY OIL AND GAS LIMITED CURRENT PRACTICE |
|----------------|--|--|
| 1.1 | Companies should establish the functions reserved for the board and those delegated to senior executives and disclose those functions. | Satisfied. The functions reserved for the Board and delegated to senior executives have been established. The Board Charter is available at www.hawkeyoilandgas.com in the Corporate Governance policy. |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | Satisfied. A Formal evaluation process has been adopted. The Performance Evaluation Policy is available at www.hawkeyoilandgas.com in the Corporate Governance policy. |
| 1.3 | Companies should provide the information indicated in the Guide for reporting on Principle 1 | Satisfied The Board Charter is available at www.hawkeyoilandgas.com in the Corporate Governance policy. During the year the composition of management changed significantly. No formal appraisal of management was conducted. |
| 2.1 | A majority of the board should be independent directors. | Satisfied. Three of the five board members were independent non-executive directors up until 14 October 2014. From 14 October 2014, two of the three board members were independent non-executive directors. |
| 2.2 | The chair should be an independent director. | Not Satisfied. Mr Glenn Featherby is a major shareholder and an Executive Chairman. Given the size and nature of the Company, Mr Glenn Featherby was considered the most appropriate director to act as Chairman. |
| 2.3 | The roles of chair and Chief Executive Officer should not be exercised by the same individual. | Satisfied until 14 October 2014. Following the resignation of the Chief Executive Officer on 14 October 2014, the roles of chair and Chief Executive Officer are both exercised by Mr Glenn Featherby. The Board is satisfied that this is an appropriate interim measure while the proposed sale of Hawkley's subsidiaries to Black Star Petroleum Limited is progressed and a new project is sought for the Company. |

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

| RECOMMENDATION | | HAWKLEY OIL AND GAS LIMITED CURRENT PRACTICE |
|----------------|---|--|
| 2.4 | The board should establish a nomination committee. | Not Satisfied. The Company considers that due to the size of the company the function of this committee is best undertaken by the full board. |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Satisfied. Board Performance Evaluation Policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy. |
| 2.6 | Companies should provide the information indicated in the guide to reporting on Principle 2 | Satisfied During the year the composition of the Board changed significantly. No formal appraisal was conducted. |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to: The practices necessary to maintain confidence in the company's integrity The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders The responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Satisfied. The Code of Conduct is available at www.hawkleyoilandgas.com in the Corporate Governance policy. |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | Satisfied. The Diversity Policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy. |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity and progress towards achieving them. | Not Satisfied. While embracing the concept of diversity, the Board is of the view that at this time, it is inappropriate to establish measurable diversity objectives or targets and to link diversity objectives to the Key Performance Indicators for the directors and senior executives. |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board | Currently there are no women in senior executive positions or on the Board. The proportion of women employees in the organisation as a whole stands at 29% as at the date of this report. |
| 3.5 | Companies should provide the information indicated in the Guide to reporting on Principle 3 | Satisfied |
| 4.1 | The board should establish an audit committee. | Satisfied. |

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

| RECOMMENDATION | | HAWKLEY OIL AND GAS LIMITED CURRENT PRACTICE |
|----------------|---|--|
| 4.2 | <p>The audit committee should be structured so that it:</p> <ul style="list-style-type: none"> • Consists only of non-executive directors • Consists of a majority of independent directors • Is chaired by an independent chair, who is not chair of the board • Has at least three members | <p>Not satisfied.</p> <p>During the year the audit committee comprised Mr Foster (Chairman, replacing Mr Riekie), Mr Featherby and Lord Risby. Mr Featherby is an executive director. The Board considers Mr Featherby's inclusion to be appropriate given his accounting qualifications and financial expertise. Following the board changes on 14 October 2014, the Board is reviewing the requirement for a separate audit committee.</p> |
| 4.3 | The audit committee should have a formal charter. | Satisfied. |
| 4.4 | Companies should provide the information indicated in the Guide to reporting on Principle 4 | <p>Satisfied.</p> <p>The audit committee charter is available at www.hawkleyoilandgas.com in the Corporate Governance policy.</p> |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies. | <p>Satisfied.</p> <p>Continuous disclosure policy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.</p> |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5 | Satisfied |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of their policy. | <p>Satisfied.</p> <p>Shareholders communication strategy is available at www.hawkleyoilandgas.com in the Corporate Governance policy.</p> |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6 | Satisfied |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | <p>Satisfied.</p> <p>The company has established policies for the oversight and management of material business risks.</p> <p>Risk management program is available at www.hawkleyoilandgas.com in the Corporate Governance policy.</p> |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | <p>Satisfied.</p> <p>Management consists of the chief executive officer, who has designed and implemented a risk management and internal control system to manage material business risks. Management have reported to the Board that those risks are being managed effectively.</p> |

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

| RECOMMENDATION | | HAWKLEY OIL AND GAS LIMITED CURRENT PRACTICE |
|----------------|---|---|
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Satisfied. The Board has received a section 295A declaration pursuant to the 2013 financial period. |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7 | Satisfied The board has received the reports and assurances in 7.2 and 7.3. The policies are available on the company's website. |
| 8.1 | The board should establish a remuneration committee. | Satisfied. During the year the remuneration committee comprised Lord Risby (Chairman), Mr Lyon and Mr Featherby. Following the board changes on 14 October 2014, the Board is reviewing the requirement for a separate remuneration committee. |
| 8.2 | The remuneration committee should be structured so that is: <ul style="list-style-type: none"> • Consists of a majority of independent directors • Is chaired by an independent director • Has at least three members | Satisfied. |
| 8.3 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | The structure of Directors' remuneration is disclosed in the remuneration report of the annual report. |
| 8.4 | Companies should provide the information indicated in the Guide to reporting on Principle 8 | The remuneration committee charter is available at www.hawkleyoilandgas.com in the Corporate Governance policy. |

Further information about the Company's corporate governance practices is set out on the Company's website at www.hawkleyoilandgas.com.

▶ ASX ADDITIONAL INFORMATION

The additional ASX information is current as at 30th September 2014.

ORDINARY SHARES

Substantial shareholders

| SHAREHOLDER NAME | NUMBER HELD | PERCENTAGE |
|---------------------------|-------------|------------|
| Citicorp Nom Pty Ltd | 68,807,590 | 23.96% |
| Mid West Atlantic Ltd | 25,520,819 | 8.89% |
| HSBC Custody Nom Aust Ltd | 11,446,476 | 3.99% |

TOP 20 SHAREHOLDERS

| RANKING | HOLDER NAME | SHARES HELD | PERCENTAGE |
|---------|---------------------------|--------------------|---------------|
| 1 | Citicorp Nom PL | 68,807,590 | 23.96% |
| 2 | Mid West Atlantic Ltd | 25,520,819 | 8.89% |
| 3 | HSBC Custody Nom Aust Ltd | 11,446,476 | 3.99% |
| 4 | Ogden Grp PL | 7,171,262 | 2.50% |
| 5 | Odgen Geoffrey Charles | 5,093,372 | 1.77% |
| 6 | Mainplay PL | 4,945,979 | 1.72% |
| 7 | Dove Nom PL | 4,378,960 | 1.52% |
| 8 | Featherby Brian + Mary | 3,545,427 | 1.23% |
| 9 | Taylor J W + R G + JR | 3,064,453 | 1.07% |
| 10 | Van Der Walt D S + P B | 3,042,207 | 1.06% |
| 11 | Rishworth G J + Irawati A | 3,000,000 | 1.04% |
| 12 | Ogane Alman Ernest | 3,000,000 | 1.04% |
| 13 | Brown Paul Matthew | 3,000,000 | 1.04% |
| 14 | Corp Advisors Aust Pl | 2,925,000 | 1.02% |
| 15 | Clark Super Pl | 2,221,213 | 0.77% |
| 16 | Ford Ross William + R E | 2,000,000 | 0.70% |
| 17 | Dubyk Andriy | 1,985,251 | 0.69% |
| 18 | J P Morgan Nom Aust Ltd | 1,868,631 | 0.65% |
| 19 | Greenridge Holdings Pl | 1,659,792 | 0.58% |
| 20 | Jomot Pl | 1,468,566 | 0.51% |
| | Total | 160,144,998 | 55.65% |

| RANGE OF HOLDING – ORDINARY SHARES | | HOLDERS | SHARES |
|------------------------------------|-----------------|--------------|--------------------|
| 1 | – 1,000 | 260 | 66,813 |
| 1,001 | – 5,000 | 343 | 1,091,823 |
| 5,001 | – 10,000 | 255 | 2,182,694 |
| 10,001 | – 100,000 | 870 | 35,136,042 |
| 100,001 | – 9,999,999,999 | 281 | 248,704,049 |
| Total on register | | 2,009 | 287,181,421 |

▶ ASX ADDITIONAL INFORMATION (CONTINUED)

UNMARKETABLE PARCELS

There are 1,351 holders holding less than a marketable parcel of \$500 of ordinary shares at a price of 1.3 cents per share.

RESTRICTED SECURITIES

There are no ordinary shares subject to escrow.

UNQUOTED SECURITIES

There are 2 holders of 2,000,000 unlisted options expiring 30 June 2015 exercisable at \$0.26

| HOLDERS OF MORE THAN 20% | OPTIONS EXPIRING | |
|--------------------------|------------------|-----|
| Holder name | Number | % |
| Lord Risby | 1,000,000 | 50% |
| Graham Lyon | 1,000,000 | 50% |

There are 4 holders of 14,000,000 unlisted options expiring 30 September 2018 exercisable at \$0.10

| HOLDERS OF MORE THAN 20% | OPTIONS EXPIRING | |
|--------------------------|------------------|-----|
| Holder name | Number | % |
| Viktor Dmitriyev | 9,000,000 | 65% |
| Graham Lyon | 2,000,000 | 14% |
| Bill Foster | 2,000,000 | 14% |
| Lord Risby | 1,000,000 | 7% |

There is 1 holder of 500,000 performance rights expiring 12 November 2014 issued to an employee under the Company's Performance Rights Plan.

There is 1 holder of 500,000 performance rights expiring 17 January 2016 issued to an employee under the Company's Performance Rights Plan.

VOTING RIGHTS

Each fully paid ordinary share carries voting rights of one vote per share.

ON-MARKET SHARE BUY-BACK

The Company does not have a current on-market share buy-back.

► NOTES

► NOTES

► NOTES

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