Hawkley Oil and Gas Limited

Consolidated Interim Financial Report

A.B.N. 72 124 772 041

For the Half-Year Ended 31 December 2014

Hawkley Oil and Gas Limited

Contents

For the Half-Year Ended 31 December 2014

Directors' Report

For the half-year ended 31 December 2014

Your directors submit their report, together with the interim financial statements of the Group, being Hawkley Oil and Gas Limited (the company) and its controlled entities (the Group) for the half year ended 31 December 2014.

Directors

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

Names	**Position**	
Mr Glenn Featherby	Executive Chairman	
Mr Richard Reavley	Chief Executive Officer and Executive Director	(Resigned 14 October 2014)
Lord Richard Risby	Non-Executive Director	(Resigned 14 October 2014)
Mr Graham Lyon	Non-Executive Director	(Resigned 14 October 2014)
Mr Bill Foster	Non-Executive Director	
Mr Anthony Reilly	Non-Executive Director	(Appointed 14 October 2014)

Operating results

The consolidated loss of the Group for the half year ended 31 December 2014 amounted to $9,702,515 (2013: $16,467,754), after providing for income tax. The result included a further write down of the Sorochynska CGU following a halt in production in December 2014. Overhead costs were substantially less than for the corresponding prior period.

Review of operations

As at the date of this directors' report, production of gas and gas condensate from the Sorochynska 201 well in Ukraine remains halted. In November 2014, the well experienced a sudden significant decrease in production. Investigations identified that the change in performance was due to water influx. Production ceased during December whilst investigations into possible remedies continued.

The Company has been unsuccessful so far in its efforts to restart production. The Company is also continuing technical and economic assessment of options for the possible workover of its Well 202 and another existing well on the Sorochynska property. The 202 well, although confirming the presence of hydrocarbons, was deemed non-commercial and was suspended in 2013. The second well is owned by another entity but is located on Hawkley's licence area and would be subject to a profit sharing arrangement. This well produced a considerable quantity of gas and condensate but was abandoned by the Ukraine Government for non-economic reasons. Work over costs would be considerably less than the costs of drilling a new well.

Hawkley's strategy to maximize value from its existing Ukraine assets remains in place, and potential farm-in and joint venture options are being pursued. The Company also continues to pursue opportunities in other regions that meet Hawkley's criteria and do not require significant acquisition capital to be raised. Given the ongoing political issues in Ukraine, negative investor sentiment for the region remains.

Cashflow during the period was significantly impacted as a result of the temporary increase in gas royalties from 28% to 55% which came into effect from 1 August 2014. This increase was a temporary budget measure, however it remains in place and is a significant factor in assessing the economic prospects of potential well workovers.

During the half year, cost reductions and restructuring efforts continued, including closure of the London head office and restructure of the Board and Management. The London-based directors: Mr Richard Reavley (CEO), Mr Graham Lyon and Lord Risby; announced their resignations on 14 October 2014. Mr Anthony Reilly was appointed to the Board of Hawkley on the same day. The board changes were announced in conjunction with the announcement of the proposed sale of Hawkley's Ukraine assets to Black Star Petroleum Limited ("BlackStar"), subject to due diligence and shareholder and regulatory approvals. However BlackStar withdrew from the sale agreement on 24 November 2014.

The Company is now being managed from the Perth office, with Executive Chairman Glenn Featherby assuming the management duties. There have also been staff reductions and cost saving measures implemented in Kiev following the production halt at Well 201.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2014 has been received and can be found on page 4 of the financial report.

Directors' Report
31 December 2014

Auditor's independence declaration continued

This report is signed in accordance with a resolution of the Board of Directors.

Director: ....
Mr Glenn Featherby

Dated 16 March 2015

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and

   (b) give a true and fair view of the consolidated group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.

2. Subject to the matters outlined in Note 1, in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director ....

Mr Glenn Featherby

Dated 16 March 2015

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

In relation to our review of the financial report of Hawkley Oil and Gas Limited for the half-year ended 31 December 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
16 March 2015

RC:JH:HAWKLEY:048

Consolidated Statement of Comprehensive Income

For the Half Year Ended 31 December 2014

	Note	31 December 2014 $	31 December 2013 $
Revenue		**3,191,951**	5,095,155
Cost of sales		**(2,904,314)**	(4,744,600)
Gross profit		**287,637**	350,555
Other income		**547,942**	245,834
Administrative expenses	10	**(3,282,768)**	(2,413,813)
Impairment of assets	3,4	**(3,016,910)**	(16,508,472)
Gains/(loss) on foreign currency		**(4,238,416)**	885,325
Loss before income tax		**(9,702,515)**	(17,440,571)
Income tax benefit/(expense)		**0**	972,817
Loss after tax for the half year		**(9,702,515)**	(16,467,754)
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translation of foreign operations		**3,738,459**	(742,265)
Total comprehensive loss for the half year		**(5,964,056)**	(17,210,019)
Loss attributable to:			
Members of the parent entity		**(5,964,056)**	(16,467,754)
Total comprehensive loss attributable to:			
Members of the parent entity		**(5,964,056)**	(17,210,019)
Earnings per share			
From continuing and discontinued operations:			
Basic loss per share (cents)		**(3.37)**	(5.73)
Diluted loss per share (cents)		**(3.37)**	(5.73)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
As at 31 December 2014

	Note	31 December 2014 $	30 June 2014 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**220,756**	745,318
Trade and other receivables		**308,621**	2,283,651
Inventories		**375,833**	278,427
Other assets		**120,124**	83,735
TOTAL CURRENT ASSETS		**1,025,334**	3,391,131
NON-CURRENT ASSETS			
Trade and other receivables		**13,483**	11,690
Plant and equipment	3	**405**	2,473,143
Gas Properties	4	**-**	1,359,384
Exploration and evaluation expenditure	5	**1,279,302**	1,302,421
TOTAL NON-CURRENT ASSETS		**1,293,190**	5,146,638
TOTAL ASSETS		**2,318,524**	8,537,769
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**442,038**	734,016
TOTAL CURRENT LIABILITIES		**442,038**	734,016
NON-CURRENT LIABILITIES			
Long-term provisions		**212,017**	230,609
TOTAL NON-CURRENT LIABILITIES		**212,017**	230,609
TOTAL LIABILITIES		**654,055**	964,625
NET ASSETS		**1,664,469**	7,573,144
EQUITY			
Issued capital	6	**38,350,437**	38,072,051
Reserves		**12,172,227**	8,656,773
Accumulated losses		**(48,858,195)**	(39,155,680)
TOTAL EQUITY		**1,664,469**	7,573,144

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2014

31 December 2014

	Ordinary Shares $	Accumulated losses $	Foreign Currency Translation Reserve $	Convertible Note Reserve $	Share Based Payment Reserve $	Total $
Balance at 1 July 2014	**38,072,051**	**(39,155,680)**	**4,427,137**	**(687,907)**	**4,917,543**	**7,573,144**
Profit attributable to members of the entity	**-**	**(9,702,515)**	**-**	**-**	**-**	**(9,702,515)**
Other comprehensive income	**-**	**-**	**3,738,459**	**-**	**-**	**3,738,459**
Conversion of performance rights	**280,000**	**-**	**-**	**-**	**(280,000)**	**-**
Share issue costs	**(1,614)**	**-**	**-**	**-**	**-**	**(1,614)**
Share based payment	**-**	**-**	**-**	**-**	**56,995**	**56,995**
Balance at 31 December 2014	**38,350,437**	**(48,858,195)**	**8,165,596**	**(687,907)**	**4,694,538**	**1,664,469**

31 December 2013

	Ordinary Shares $	Accumulated losses $	Foreign Currency Translation Reserve $	Convertible Note Reserve $	Share Based Payment Reserve $	Total $
Balance at 1 July 2013	38,072,051	(15,620,637)	1,708,513	(687,907)	4,938,267	28,410,287
Profit attributable to members of the entity	-	(16,467,754)	-	-	-	(16,467,754)
Other comprehensive income	-	-	(742,265)	-	-	(742,265)
Share based payment	-	-	-	-	19,330	19,330
Balance at 31 December 2013	38,072,051	(32,088,391)	966,248	(687,907)	4,957,597	11,219,598

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2014

	31 December 2014 $	31 December 2013 $
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	**4,053,174**	6,231,696
Payments to suppliers and employees	**(4,422,551)**	(6,040,359)
Interest received	**43,291**	207,640
Income taxes paid	**(63,826)**	(35,881)
Net cash provided by/(used in) operating activities	**(389,912)**	363,096
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of plant and equipment	**(79,829)**	(392,043)
Payment for gas production properties	**-**	-
Payment for exploration expenditure	**-**	-
Loans to third party - Ukrgeoinvest	**-**	(485,132)
Net cash used by investing activities	**(79,829)**	(877,175)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of shares	**-**	-
Proceeds from borrowings	**-**	-
Net cash provided by financing activities	**-**	-
Net increase (decrease) in cash and cash equivalents held	**(469,741)**	(514,079)
Cash and cash equivalents at beginning of year	**745,318**	2,333,977
Effects of exchange rate changes on cash and cash equivalents	**(54,821)**	(203,922)
Cash and cash equivalents at end of the half year	**220,756**	1,615,976

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the half-year ended 31 December 2014

1 Basis of Preparation

This consolidated interim financial report for the half year ending 31 December 2014 is a general purpose condensed financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 'Interim Financial Reporting'.

The interim consolidated financial report is intended to provide users with an update on the latest annual financial statements of Hawkley Oil and Gas Limited and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This interim consolidated financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2014, together with any public announcements made during the half year.

Except as noted below, the same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

All other new standards and interpretations effective from 1 July 2014 were adopted with the main impact being disclosure changes. Changes to accounting policies due to the adoption of these standards and interpretations are not considered significant for the Group.

Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and realisation of assets and the settlement of liabilities in the normal course of business.

For the half year ended 31 December 2014, the Group generated a consolidated loss of $9,702,515 and incurred operating cash outflows of $389,912. As at 31 December 2014, the Group has cash and cash equivalents of $220,756 and net current assets of $583,296.

In December 2014, production was halted on the Group’s sole operating well, the Sorochynska 201 well. The well experienced a sudden significant decrease in production due to water influx. The Group is continuing to investigate possible remedies. It is not certain when the well will recommence production.

Notwithstanding the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis as they have a reasonable basis to conclude that ongoing expenditure commitments will be met from proceeds of asset sales, farm out transactions, loans from directors or recommencement of production.

Should the Directors not be able to achieve the matters set out above, there is significant uncertainty as to whether the Group will be able to continue as a going concern.

2 Operating 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 located wholly within Ukraine.

The accounting policies applied for internal purposes are consistent with those applied in the preparation of these interim financial statements.

3 Plant and equipment

PLANT AND EQUIPMENT

	31 December 2014 $	30 June 2014 $
Plant and equipment		
- at cost	**4,642,636**	4,712,961
- accumulated depreciation and impairment	**(4,642,231)**	(2,239,818)
Total plant and equipment	**405**	2,473,143

(a) Movements in carrying amounts of plant and equipment

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

Consolidated	Plant and Equipment $	Total $
Half Year ended 31 December 2014		
Balance at the beginning of half year	**2,473,143**	**2,473,143**
Additions	**79,829**	**79,829**
Depreciation expense	**(150,695)**	**(150,695)**
Impairment expense	**(2,251,718)**	**(2,072,343)**
Foreign exchange movements	**(150,154)**	**(329,529)**
Balance at the end of the half year	**405**	**405**

Consolidated	Plant and Equipment $	Total $
Year ended 30 June 2014		
Balance at the beginning of year	5,447,699	5,447,699
Additions	1,083,575	1,083,575
Depreciation expense	(394,852)	(394,852)
Impairment expense	(1,436,221)	(1,436,221)
Foreign exchange movements	(2,227,058)	(2,227,058)
Balance at the end of the year	2,473,143	2,473,143

During the half year ended 31 December 2014, an impairment of $2,251,718 (30 June 2014: $1,436,221) was made to write plant and equipment to its recoverable amount. The impairment related to the cessation of production on the Sorochynska field due to water influx issues. Recoverable amount was determined through value-in-use by discounting expected future cash flows.

A pre-tax discount rate of 29% was applied in the value in use calculation. A gas price of Ukraine Hryvnia 125,000 / mmcf in 2015 and 126,000 / mmcf in 2016 was applied. The key judgement is the time and cost to rectify production issues currently being experienced in the field.

Should uncertainties be removed in the future, the value in use may change.

4 Gas Properties

	31 December 2014 $	30 June 2014 $
Gas Properties		
- at cost	**9,714,030**	9,795,709
- accumulated amortisation and impairment	**(9,714,030)**	(8,436,425)
	-	1,359,284

(a) Movements in carrying amounts of gas properties

Consolidated	Gas Properties $	Total $
Half Year ended 31 December 2014		
Balance at the beginning of the half year	**1,359,284**	**1,359,284**
Amortisation	**(512,413)**	**(512,413)**
Impairment	**(765,192)**	**(704,198)**
Foreign exchange movements	**(81,679)**	**(142,673)**
Closing value at 31 December 2014	**-**	**-**

Consolidated	Gas Properties $	Total $
Year ended 30 June 2014		
Balance at the beginning of the year	6,753,742	6,753,742
Additions	5,060	5,060
Amortisation	(3,177,332)	(3,177,332)
Impairment expense	(790,144)	(790,144)
Foreign exchange movements	(1,432,042)	(1,432,042)
Closing value at 30 June 2014	1,359,284	1,359,284

During the half year ended 31 December 2014, an impairment of $704,918 (30 June 2014: $790,144) was made to write plant and equipment to its recoverable amount. The impairment related to the cessation of production on the Sorochynska field due to water influx issues. Recoverable amount was determined through value-in-use by discounting expected future cash flows.

A pre-tax discount rate of 29% was applied in the value in use calculation. A gas price of Ukraine Hryvnia 125,000 / mmcf in 2015 and 126,000 / mmcf in 2016 was applied. The key judgement is the time and cost to rectify production issues currently being experienced in the field.

Should uncertainties be removed in the future, the value in use may change.

Notes to the Financial Statements
For the half-year ended 31 December 2014

5 Exploration and evaluation assets

	31 December 2014 $	30 June 2014 $
Exploration and evaluation assets	**1,279,302**	1,302,421

	Exploration and evaluation $	Total $
Half Year ended 31 December 2014		
Balance at beginning of the half year	**1,302,421**	**1,302,421**
Expenditure incurred	-	-
Impairment	-	-
Foreign exchange impact	**(23,119)**	**(23,119)**
Balance at end of the half year	**1,279,302**	**1,279,302**
Year ended 30 June 2014		
Balance at beginning of the year	12,679,565	12,679,565
Expenditure incurred	-	-
Impairment	(9,276,889)	(9,276,889)
Foreign exchange impact	(2,100,255)	(2,100,255)
Balance at end of the year	1,302,421	1,302,421

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

During the half year, there was no impairment recognised (30 June 2014: $9,276,889).

6 Issued Capital

	31 December 2014 $	30 June 2014 $
288,181,427 (2014: 287,181,427) Share capital - Ordinary	**42,420,976**	42,156,932
Share issue costs	**(4,070,539)**	(4,084,881)
Total	**38,350,437**	38,072,051

7 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 December 2014 (30 June 2014: $48,455).

Notes to the Financial Statements

For the half-year ended 31 December 2014

8 Events Occurring After the Reporting Date

No matters or circumstances have arisen since the end of the half 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.

9 Fair Value Measurement

The carrying value of financial assets and financial liabilities approximate their fair values.

10 Changes in Estimates

The reserves related to Sorochynska were adjusted during the period. This resulted in an increase in amortisation expense recorded during the period.

The recoverability of loans to Ukrgeoinvest was reassessed with an allowance for doubtful debts raised over 100% of the balance at 31 December 2014 ($1,845,667).

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

To the members of Hawkley Oil and Gas Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Hawkley Oil and Gas Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a description 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 half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Hawkley Oil and Gas Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hawkley Oil and Gas Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 1 in the financial report. The matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Ernst & Young

RJ Curtin
Partner
Perth
16 March 2015